

THE ORIGINS OF FEDERAL PUBLIC ENTERPRISES IN  
CANADA ; AN APPRAISAL OF TWO APPROACHES

by

Richard A. Kumi, B.A. (Hons),

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## ABSTRACT

Public enterprises play an important role in Canadian economic life; they could once be found in almost every sector of the economy. Various models have been advanced to explain the origins of public enterprises in Canada. This thesis is an attempt to examine the political culture and political economy approaches, and to determine the appropriate model for the explanation of the origins of federal public enterprises.

The origins of selected public enterprises and former public enterprises, including Canadian National Railways, Canadian Broadcasting Corporation, Air Canada, Polymer Ltd, Canada Development Corporation, De Havilland, Canadair Ltd and PetroCanada, are examined to determine which of the models provides a better explanation of their creation.

This thesis argues that, although, the origins of public enterprise cannot be explained by a single model, the political economy approach is a better model for capturing the dynamism of the phenomenon. However, although the political economy approach is a better model, its explanatory power could be enhanced by incorporating aspects of other models.

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## CHAPTER ONE : INTRODUCTION

Governments employ many forms of policy instruments to intervene in the economy. Allan Tupper and Bruce Doern identified four policy instruments employed by governments. These are exhortation, expenditure, regulation and public ownership.[1]

The thesis will focus on public enterprises in Canada. There are public enterprises at all levels of government in Canada. Municipal, provincial, and federal governments have all established public enterprises at one time or another. However, the principal focus of this thesis is federal public enterprises. Although the structure, extent and nature of public enterprises in Canada are unique, the public enterprise phenomenon pervades all parts of the world. Every society in the world has some form of public enterprise, although the degree and extent may vary from country to country.

In the pluralist democratic states, it is generally presumed that a perfect competitive market will allocate resources efficiently and determine production techniques with minimal government intervention. However, since the market is imperfect, there are positive and normative reasons why governments intervene in the economy. The rationales for government intervention are numerous.

Market failure is a positive rationale for government intervention. Sometimes the market is unable to allocate resources efficiently. This occurs in the production of certain

goods and services which involve 'externalities'. Externalities are the unintended effects of economic activities. The market mechanism is unable to internalize externalities in the pricing mechanism, hence the private sector is not motivated to undertake certain economic ventures, although they may be socially desirable. In other cases, external diseconomies which the private sector is unable to internalize in the pricing of goods and services could motivate the private sector to undertake production activities that are socially unacceptable. External economies and diseconomies provide positive rationales for government intervention.

Sometimes the production techniques required in certain industries could lead to the domination of these industries by a few firms or a single firm. Such a market outcome leads to the development of natural monopolies, resulting in inefficiency and undesirable pricing policies. Government intervention is necessary to stem the development of natural monopolies.

Another instance of market failure is related to the production of public goods or services such as the provision of police services or education. Public goods are characterized by non-excludability in consumption; explicitly, consumers cannot be excluded from the consumption of public goods. The problem of free-riders makes it impossible for the market mechanism to articulate consumer preferences and values for public goods. If left to the private sector, there will either be no production,

or gross inefficiency and duplication in the production of public goods. Thus, there is a need for government intervention to ensure the production of public goods.

If market forces are left uncontrolled, they might produce some socially unacceptable results and preclude social equity. With respect to certain goods or services which are considered socially desirable, such as education and health services, the market mechanism alone cannot ensure the availability of these services to all the members of the society. A normative criterion for social equity provides a rationale for government intervention.

These are some of the positive reasons why governments intervene in the economy. When governments do intervene, they may use any one of the policy instruments or a combination of policy instruments to achieve policy objectives.

A comparative overview of the economic activities of public enterprises in seven European countries in Table 1 reveals the importance of public enterprises. The Table adopted from Jeanne Laux and Maureen Molot[2] reveals that in the 1970s public enterprises experienced some growth in all countries except Britain. Table 1 reveals that the share of investments in the economy by public enterprises increased in all countries except Britain. In Italy and Austria 47.1 percent and 49.9 percent of respective gross fixed capital formation in the economy was accounted for by public enterprises in 1979. In 1979, 25.4

TABLE 1 ECONOMIC ACTIVITY OF PUBLIC ENTERPRISES IN EUROPE

|           | EMPLOYMENT @ |      |       | INVESTMENT # |      |       |
|-----------|--------------|------|-------|--------------|------|-------|
|           | 1973         | 1976 | 1979  | 1973         | 1976 | 1979  |
| Britain   | 7.6          | 7.9  | 8.1   | 23.6         | 23.6 | 20.0  |
| Belgium   | 6.2          | 6.4  | 6.6   | 12.4         | 13.3 | 13.0  |
| France    | 10.7         | 11.5 | 11.8  | 22.4         | 28.1 | 30.5  |
| W.Germany | 10.3         | 10.8 | 10.5  | 16.9         | 17.1 | 12.7  |
| Holland   | 5.4          | 5.6  | 5.8   | 9.8          | 12.1 | 10.8  |
| Italy     | 14.1         | 24.6 | 25.4* | 35.0         | 46.7 | 47.1* |
| Austria   | -            | 21.6 | 20.8  | -            | 43.1 | 49.1  |
| Spain     | -            | 3.6  | 4.1   | -            | 18.7 | 13.5  |

@. Employees as a percentage of active population outside agriculture

#. Gross fixed capital formation as a percentage of GFCF for the economy as a whole

\*. Figures for 1978

Source; Adopted From Laux, J.K. & Molot, M.A. State Capitalism: Public Enterprises in Canada, Ithaca, Cornell University Press, 1988 p.13

percent of the non-agriculture labour force was accounted for by public enterprises in Italy, while in Austria it was 20.8 percent. In West Germany and Belgium 12.7 percent and 13 percent of the respective gross fixed capital formation was accounted for by public enterprises.

Table 1 also reveals that, although the eight countries surveyed have public enterprises, the extent and degree varies from country to country. In terms of investment, Britain had a bigger public sector than Belgium, West Germany, Spain and Holland, but smaller than France, Italy and Austria.

At the end of the 1970s, 50 of the 500 largest industrial corporations outside the United States were owned by governments [3]. This suggests that, although governments employ many forms of policy instruments to intervene in the economy, public enterprises are important policy instruments in most countries.

In North America, the United States and Canada also have their share of public enterprises, although with varying degree and intensity. Canada is presumed to have a relatively larger public sector than the United States. In the mid 1970s, the government accounted for 41 percent of Canada's GNP in terms of expenditure compared to 34 percent in the United States, in 1982 the ratio was 44 to 38.[4] (Although these figures suggest that Canada has a larger public sector than the United States, it does not necessarily mean public enterprises are more extensive in Canada than the United States.) In Canada public corporations



have been employed by all levels of government to pursue various policy objectives. Today, crown corporations are important in almost every sector of the Canadian economy. This fact was noted by the Economic Council of Canada in 1986 when the Council remarked that "government corporations are clearly a major presence in the economy." [5]

### OPERATIONAL DEFINITION

Since the focus of the essay is federal public enterprises, it will be analytically necessary to define and identify federal public enterprises. Attempts to formulate an all-embracing definition are fraught with numerous problems.

In 1951 the federal government attempted to define a crown corporation in the Financial Administration Act (F. A. A.). Since then, the F.A.A. has been variously revised. The 1951 F.A.A. defined a crown corporation as a "corporation that is ultimately accountable, through a minister, to the parliament for the conduct of affairs and includes the corporations named in Schedule B, Schedule C and Schedule D." [6].

The F.A.A. (1951) definition was inadequate and the classification of corporations by the F.A.A. was also ambiguous. Under the F.A.A. schedules, corporations listed in 'Schedule B' were 'departmental corporations' responsible for administrative, regulatory and supervisory services. Schedule C listed 'agency corporations' which were quasi-commercial corporations, while

Schedule D contained 'proprietary corporations' which were purely commercial and did not depend on government appropriations. There were also non-scheduled corporations. This ambiguity in classification was a source of dissatisfaction to the Office of the Comptroller General and the Auditor General.[7]

The Royal Commission on Financial Management and Accountability (Lambert Commission) and the Treasury Board Secretariat proffered alternative definitions. The Final Report of The Lambert Commission[8] established three criteria for identifying a public corporation. These criteria involve the direct delegation of authority, the existence of a board of directors and some form of managerial decision-making. Based on these criteria, the Commission identified three types of public enterprises; those that are wholly-owned by the government; shared enterprise in which share equity is jointly owned by the government and other participants; and quasi-public enterprises which are non-profit or membership corporations sponsored by the government. Although the Commission's criteria for identifying public enterprises were useful they were not satisfactory . In 1983, Langford and Huffman noted that "no ... definition exists and the federal government is still a long way from developing an identification and data integration package." [9]

In response to these shortcomings, the federal government introduced an amendment to the E.A.A. in 1984. Under the 1984 E.A.A the creation and mandate of crown corporations must be

approved by Acts of Parliament. When crown corporations are established under the general companies act they will still require parliamentary approval. Parliamentary approval is also required for the disposal of crown corporations.

The government will be responsible for broad policy directives of all crown corporations. These policies will be implemented by a board of directors appointed by the federal government and responsible to the government.

The F.A.A. (1984) also considered subsidiaries of parent crown corporations as crown corporations if they are wholly-owned by parent crown corporations. These wholly-owned subsidiaries will be accountable to the government through their parent crown corporations, and may be directed by the government to pursue public policy objectives. However, the Act acknowledged that if subsidiaries are not wholly-owned by a parent crown corporation, then government control would be restricted by the rights of other shareholders.

A major departure of the 1984 F.A.A. was the new Schedules of crown corporations. According to the amendments, "crown corporation of a governmental nature would be henceforth grouped in 'Schedule B' of the F.A.A. and be referred to as departmental corporations...Parent crown corporations of commercial nature will be listed in a new Schedule C." [10] Schedule C is divided into two parts - Part II includes crown corporations operating in a competitive environment not normally dependent on government

subvention, such as Canada Development Investment Corporation and PetroCanada. Part I includes other crown corporations that are dependent on government subvention such as the Canadian Broadcasting Corporation, or operate in an environment where competition is less severe, for example Canada Post. Some parent crown corporations were to be exempted from most provisions of the E.A.A. such as the Bank of Canada and the Wheat Board. Based on this definition the Treasury Board Secretariat listed 54 parent crown corporations in 1990.

The amendments also required the Treasury Board Secretariat to provide parliament with an annual consolidated report on all the businesses and activities of parent crown corporations.

For the purpose of this thesis, public enterprises are corporations which may be created by Acts of Parliament to meet public policy objectives, and they include mixed and joint enterprises. Such a definition would include a former mixed enterprise, Canada Development Corporation, and Telesat Canada which were created by the federal government but were not intended to be crown corporations. The definition of public enterprises takes into consideration wholly-owned subsidiaries of parent public corporations. These subsidiaries should be considered federal public enterprises because of the presence of federal government interest or control.

Federal public enterprises also include corporate entities in which the federal government has vested interest and control.

This control is not related solely to the number of shares controlled by the federal government but also to the relative number of shares controlled by other shareholders and the right to appoint members to the board of directors. Distinct from government departments, public corporations have board of directors appointed by the government to implement broad policy objectives.

The emphasis of the thesis will be on federal public enterprises which operate in a commercial or quasi-commercial manner and they will normally be listed (or have been listed) under Schedule C (Part I) and Schedule C (Part II) of the 1984 E.A.A schedules.

### RESEARCH OBJECTIVES

The purpose of the thesis is to examine the origins of federal public enterprises in Canada by using two broad approaches; the political economy and political culture approaches. This thesis will attempt to determine which of these approaches best explains the emergence of federal public enterprises in Canada. As part of the objective, this thesis will test these two approaches with respect to selected public enterprises and former public enterprises to determine the best approach.

This thesis will rely mainly on other studies conducted on public corporations, government documents, parliamentary debates

as well as annual reports of some crown corporations. Though this thesis is intended to focus on federal public corporations it is also intended to contribute to the literature on public corporations as a whole. Most studies of public corporations have been descriptive - mainly describing the relationship between the government and public corporations, and the mechanisms of financial and administrative control. Marsha Chandler observed this fact when she remarked in 1983 that "the central analytical issues have been the problems of the extent and nature of the accountability of crown corporations to government...exclusive reliance on these concerns has led to a number of rather critical gaps in our understanding of public ownership." [11]

Although in recent times the emphasis of the literature is on privatization of public enterprises, their origins also deserve more attention. An examination of the origins of federal public enterprises will provide an important framework within which the dynamism of public corporations could be understood and studied. If an appropriate model for the explanation of the origins of federal public enterprises is established, they will be placed in a better perspective for an appreciation and evaluation of the current privatization drive. The model could also be a guide for the study of provincial public corporations. For analytical purposes, the emphasis of the thesis is federal public enterprises corporations. This is intended to provide an appropriate focal point to test the political culture and

political economy approaches.

Chapter Two of the thesis will provide an overview of the size, structure and growth trends of public enterprises in Canada, and survey the complex terrain of public corporations in Canada.

Chapter Three will examine the political culture and political economy approaches to the explanation of the emergence of federal public enterprises in Canada. This chapter is intended to provide an empirical and theoretical overview of the political economy and political culture approaches and how they relate to the emergence of federal public corporations in general.

Chapter Four will test the applicability of the political economy and political culture approaches to the explanation of the origins of selected federal public enterprises and former public enterprises. The selected public enterprises include the Canadian Broadcasting Corporation, Canadian National Railways, Petro-Canada (now partially privatized), and former public enterprises including Polysar Ltd, Canadair, De Havilland and Canada Development Corporation.

The final chapter will summarize the analysis in Chapter Four and establish which of the two models, the political culture approach or the political economy approach, provides a better explanation for the emergence of public enterprises in Canada at the federal level.

### FOOTNOTES

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9. Langford, J.W. & Huffman, K.J. op. cit., p.221
10. Financial Administration Act. Parliamentary Debates,  
March, 23 1984 p.2378
11. Chandler, M. 'Politics of Public Enterprise' in Prichard  
J.R.S., ed., op. cit. p.185.

## CHAPTER TWO: FEDERAL PUBLIC ENTERPRISES IN CANADA

Public enterprises play an important role in the Canadian economy, both at the federal and provincial level. A study by the Economic Council of Canada noted that "the concept of public enterprises is deeply embedded in the fabric of Canadian society." [1]

The first recorded use of public enterprises was the Board of Works established in 1841. When the United Province of Canada bought the Welland Canal, the new Board of Works was empowered to expand the canal. [2] In 1851, the Nova Scotia Railways Company's first Annual Report was released. There were also a couple of harbour boards before Confederation.

Besides this long tradition, public corporations have remained an important policy instrument for the Canadian government and contribute significantly to the economy. Table 2 adopted from Richard Bird's book Financing The Canadian Government: A Quantitative Overview [3] shows the relative importance of government enterprises in Canada. Table 2 reveals that between 1961-75, government enterprises contributed an average of 23.8 percent of government revenue and accounted for an average of 3.1 percent of total employment.

By 1983, total employment for government enterprises had increased from 3.1 percent in 1975 to about five percent. Some sectors of the economy were dominated by government enterprises.

TABLE 2  
THE RELATIVE IMPORTANCE OF GOVERNMENT ENTERPRISE  
1961-1975

| Year | <u>SALES REVENUE (%)</u>                  |                         | <u>EMPLOYMENT (%)</u>                    |   |
|------|---|-------------------------|--|---|
|      | As Proportion<br>of Government<br>Revenue | As Proportion<br>of GNE | As Proportion<br>of Public<br>Employment | As Proportion<br>of Total<br>Employment |
| 1961 | 30.4                                      | 8.7                     | 15.1                                     | 3.4                                     |
| 1962 | 29.3                                      | 8.5                     | 14.5                                     | 3.3                                     |
| 1963 | 28.9                                      | 8.4                     | 14.0                                     | 3.2                                     |
| 1964 | 30.3                                      | 9.0                     | 13.8                                     | 3.1                                     |
| 1965 | 26.6                                      | 8.1                     | 13.8                                     | 3.1                                     |
| 1966 | 26.1                                      | 8.2                     | 13.4                                     | 3.0                                     |
| 1967 | 24.8                                      | 8.2                     | 13.6                                     | 3.2                                     |
| 1968 | 19.8                                      | 6.8                     | 12.8                                     | 3.0                                     |
| 1969 | 18.2                                      | 6.6                     | 12.6                                     | 3.0                                     |
| 1970 | 18.0                                      | 6.7                     | 12.3                                     | 2.9                                     |
| 1971 | 20.1                                      | 7.5                     | 12.2                                     | 2.9                                     |
| 1972 | 20.1                                      | 7.6                     | 12.1                                     | 2.8                                     |
| 1973 | 21.0                                      | 7.9                     | 12.2                                     | 2.8                                     |
| 1974 | 21.9                                      | 8.7                     | 12.3                                     | 2.9                                     |
| 1975 | 21.3                                      | 8.3                     | 12.5                                     | 3.0                                     |

Source: Bird, R. Financing Canadian Government: A Quantitative Overview, Toronto, Canadian Tax Foundation, 1980 p.4

In the transportation sector, government enterprises employed about 38 percent of the labour force and accounted for 48 percent of total assets. In the electrical power industry, public enterprises accounted for about 80 percent of total employment and about 94 percent of total assets.[4] Government owned and controlled enterprises accounted for 26% of the net fixed assets (including inventories) of all Canadian corporations in 1983.[5]

In 1984, four wholly-owned federal government corporations were listed among the 50 top non-financial firms ranked by the Financial Post.[6]. In 1983, A. R. Vining and R. Botterell identified 233 provincial crown corporations, and John Langford and Kenneth Huffman also identified 454 federal crown corporations.[7]. Based on this information there were 687 federal and provincial crown corporations in 1983. In 1990, the Treasury Board identified 365 enterprises which were either wholly owned or controlled by the federal government.[8]

### **FEDERAL PUBLIC CORPORATIONS: HISTORICAL PATTERN**

#### **1867-1930**

After Confederation, one of the foremost objectives of the government was to provide infrastructure. In pursuit of that objective, the federal government undertook the reconstruction of the Welland Canal. Between 1873 and 1877, a 14 foot canal was reconstructed between Lake Ontario and Lake Erie. The

construction of the canal was one of the first major federal government enterprises in Canada. However, at the turn of this century, this proved inadequate for the volume of traffic, so in 1913, the government began the construction of a 25 foot deep Welland Ship Canal.[9]

As part of the Confederation package, the federal government was obliged to construct a railway to link central Canada to the Maritime provinces.[10] Before the construction of the Intercolonial Railway, the federal government assumed the assets and liabilities of all railway corporations in the Maritime Provinces. Subsequently, in 1873, the Prince Edward Island Railway came under federal government ownership when Prince Edward Island entered Confederation.

As part of a larger scheme to unite the new nation, the federal government offered an incentive package involving land and financial grants to encourage private investors to undertake the construction of railways to link the west to the east.

By the first decade of the twentieth century, Canadian Pacific Railway, Grand Trunk Pacific and Canadian Northern had responded to government incentives, and constructed a nation-wide railroad network. Partly as a result of the first world war and the consequent economic decline, all the companies, except Canadian Pacific, were plunged into financial and operational difficulties verging on bankruptcy. Partly in response to these developments, the government nationalized and

merged the Grand Trunk Pacific, Grand Trunk and Canadian Northern between 1917 and 1919 to form the Canadian National Railways.[11]

Besides railway transport, a number of harbour commissions were established during the first quarter of the twentieth century. Some of these harbour commissions included the Fraser Harbour Commission and Hamilton Harbour Commissioners - these were established to service the shipping industry.[12]

When the first world war broke out, the federal government established the Imperial Munitions Board (I.M.B.) in 1915. The main objectives of the Board were to organize and ensure war time production and to allocate contracts for the supply of munitions. Under the Imperial Munitions Board a number of factories were established to manufacture aircraft and munitions to supplement the efforts of the private sector.[13] However, these factories were sold after the war .

Between 1867 and 1930, federal public corporations were concentrated in the transportation infrastructure sector. The construction of canals, railways and harbours was intended to promote and stimulate economic development. The fact that the I.M.B. factories were sold after the war may be seen as proof of the government's intention to restrict the operations of public corporations to the provision of infrastructure and not to engage directly in manufacturing activities.

### 1930-1960

This period was marked by the Great Depression, World War II and post-war reconstruction. A number of public enterprises were established by the federal government to meet the demands of the period.

The federal government employed public corporations to strengthen national unity by establishing nation-building institutions to stem American domination. Public corporations were also used to complement the private sector in areas where private investors were not forthcoming.

The Canadian Radio Broadcasting Commission, (now Canadian Broadcasting Corporation), was established in 1932 to provide broadcasting services and regulate private firms in the industry.[14] In 1937, Trans Canada Airlines (later Air Canada) was established, as a wholly owned subsidiary of the Canadian National Railways, to improve transportation links within Canada, and between Canada and other nations.[15] The CBC and Trans Canada Airlines were both established as symbols of nationhood. Besides this motivation, both corporations were established "only after government failed to interest private investors in the venture."[16]

In 1934, the Bank of Canada Act was passed establishing the Bank of Canada. The government intended to use the Bank of Canada to formulate and implement monetary policies to guide the national economy.[17] The Canadian Wheat Board was established in

the 1930s in response to demands by western farmers for government protection against market instability and the activities of grain elevators.[18]

"The federal government used public corporations more frequently during the second world war than in the entire period between Confederation and 1930." [19] Under the War Measures Act and the Department of Munitions and Supply Act, 28 federal crown corporations were created.[20] The wartime public corporations were made up of administrative and productive corporations. The former included Allied War Supplies Corporation, Wartime Oils Limited, Fairmount Company Limited and Federal Aircraft Limited. The productive corporations included Defence Communication Ltd, Polymer Corporation, Eldorado Mining and Refining Ltd, Turbo Research Ltd and Victoria Aircraft Ltd.

After the second World War, the objectives for which these public corporations were established become obsolete and some of them were divested. The War Assets Corporation was established after the war to undertake postwar dismantling and privatization of the wartime public corporations.[21] While all the administrative public corporations were dismantled, the productive ones were either privatized or retained. The aircraft industry was privatized, but Polymer Limited and Eldorado Mining and Refining Ltd were retained as federal public enterprises.

After the second world war, the objective of the federal government was to promote full employment, reconstruct the



postwar economy and stimulate economic growth to stem the reoccurrence of the 1930 depression. Influenced by Keynesian economics, the federal government intended to stimulate the private sector through discretionary fiscal and monetary policies.[22]

In 1944, banking and financial institutions, such as the Industrial Development Bank (later the Federal Business Development Bank), and the Export Credit Insurance Corporation (later the Export Development Bank), were created to provide credit and financial services to the private sector to stimulate economic growth and full employment.[23] The Industrial Development Bank specialized in the provision of credit services to stimulate industrial development, while the Export Credit Insurance Corporation provided insurance and financial services to Canadian exporters.

As part of the efforts to reconstruct the postwar economy, the Wartime Housing Corporation and the Central Mortgage Bank were merged to form the Central Mortgage and Housing Corporation, to address the acute shortage of housing by providing mortgage and credit facilities.[24]

After the war, the federal government was determined to offer price support services to primary producers, consequently marketing boards including the Agriculture Products Board(1951) and the Fisheries Prices Support Board(1944) were established.[25] The Canadian Commercial Corporation was also

established to stimulate Canadian exports and promote economic growth. The federal government continued to develop infrastructure after the war. Besides a number of harbour commissions established during this period, Northern Canada Power Commission and Atomic Energy Commission Ltd were established to increase the production of power and energy. Teleglobe Canada Ltd was established to provide external communication services for Canada. [26]

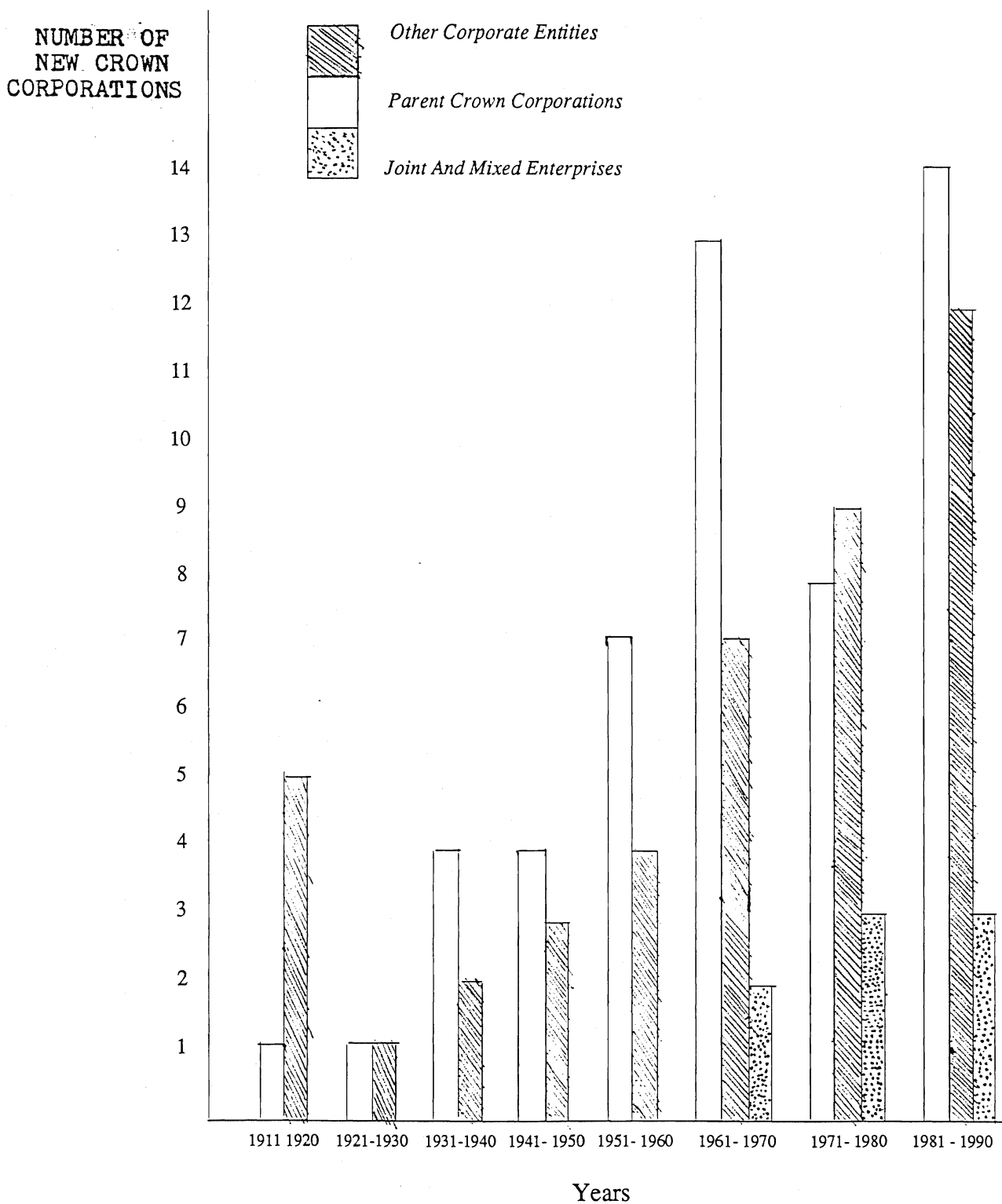
This period was marked by a wide range of public corporations much different from the 1867 to 1930 period. By 1960 federal public corporations were to be found in almost every sector of the economy.

Figure 1 reveals that over 70 percent of the federal public corporations were established after 1960. In contrast to earlier periods, most of the public corporations created after 1960 were either involved in the production of goods and services in competition with the private sector or in activities that could be undertaken by the private sector. The use of joint and mixed enterprises also increased after 1960.

Before the 1960s, most of the federal public corporations were created to restore market stability, provide infrastructure, strengthen national unity and ensure national security. Most of

**Figure 1    The Number Of Crown Corporations And Other Corporate Entities  
Established For Each Decade From 1911 To 1990**

*Source: Annual Report To Parliament On Crown Corporations And Other Corporate Interest*



the federal public corporations created after 1960 were intended to address structural problems, bail out private ventures, save or create jobs, ensure a significant Canadian presence in certain sectors of the economy or to stem foreign control. Structural problems such as the high degree of non-resident control and lack of indigenous capital were partly addressed by the creation of Canada Development Corporation and Petro-Canada in the 1970s. Petro-Canada's operations also addressed regional disparity by skewing its exploratory activities to the Atlantic provinces and the arctic.

Employment considerations were important in the decision of the federal government to bail out De Havilland, Cape Breton Development Corporation and Canadair Ltd. Though employment in all of these corporations declined, some jobs were sustained by government ownership. Enterprise Cape Breton was created in 1988, in part, to create new job opportunities for displaced miners from DEVCO.

A large number of the public enterprises created after 1960, such as Canadair Ltd, Telesat Canada, CDC and Petro-Canada were engaged in activities in competition with the private sector, and besides serving public policy objectives, they were intended to return profits on operations.

Cape Breton Development Corporation was created in 1967 as part of the federal government's efforts to address uneven regional development and save Cape Breton from economic decline.

According to Roy George "Cape Breton Development Corporation was the only federal corporation in Canada whose mandate was the economic well being of a geographical area rather than of a particular industry." [27]

In 1974, the federal government intervened by buying De Havilland to save jobs and promote the development of the short-take-off-landing aircraft. The federal government also bought Canadair Ltd in 1975 to save jobs and sustain the research potentials of the aerospace industry. [28]

The federal government continued to establish public corporations to protect primary producers from market instability. The Canadian Dairy Commission (1966), National Farm Products Marketing Board (1970), Canadian Salt Fish Corporation (1970) were all established to provide marketing and price support services to primary producers. [29]

After 1960, the federal government began to use mixed enterprises as policy instruments. Telesat Canada and the Canada Development Corporation were two of the important mixed enterprises established after 1960. Telesat Canada is a mixed enterprise created by the federal government in 1969 to install and operate domestic satellite communication. [30] In the mid 1960s, some common carriers and the federal government were interested in satellite communication because of the possibility of enhancing broadcasting and communication services. A compromise was struck and Telesat Canada was established, as a

mixed enterprise, to "strike a balance among several not always publicly stated but at least implicit public and private sector goals." [31]

The Canada Development Corporation was a mixed enterprise established by the federal government in 1971 to address the problems of foreign ownership in the Canadian economy. [32] A mixed enterprise was considered an appropriate means of engaging the interests of private investors and ensuring significant Canadian presence.

The Canadian oil and petroleum industry has been dominated by American multinationals for a long time. This structural weakness was a source of public concern in the 1970s, when the oil crisis struck. With declining domestic reserves and the insecurity of external supplies, Petro-Canada Ltd was established in 1975 by the federal government to address this structural weakness. [33]

In July 1980, the Postmaster General introduced a Bill in the House of Commons to make Canada Post, then a government department, a crown corporation. This was intended to streamline the operations of postal services in Canada, and ensure financial self-sufficiency of the corporation. In response to this bill, Canada Post became a crown corporation in 1981. [34]

Evidently between 1960 and 1990, federal public corporations were more often used to address structural problems such as high foreign investments and uneven regional development. The federal

government also used public enterprises to save some private firms from collapse and some sectors of the economy from decline.

The historical pattern of federal crown corporations, from 1867 to 1990, reveals a certain trend in the growth of federal public corporations. Immediately after Confederation federal public corporations were basically instruments for the provision of infrastructure. After the 1930 depression federal government corporations assumed the responsibility of restoring market stability, providing more infrastructure and promoting national unity. Since the 1960s, public enterprises have engaged in commercial oriented activities, sometimes in competition with the private sector, and the use of joint and mixed enterprises have also increased.

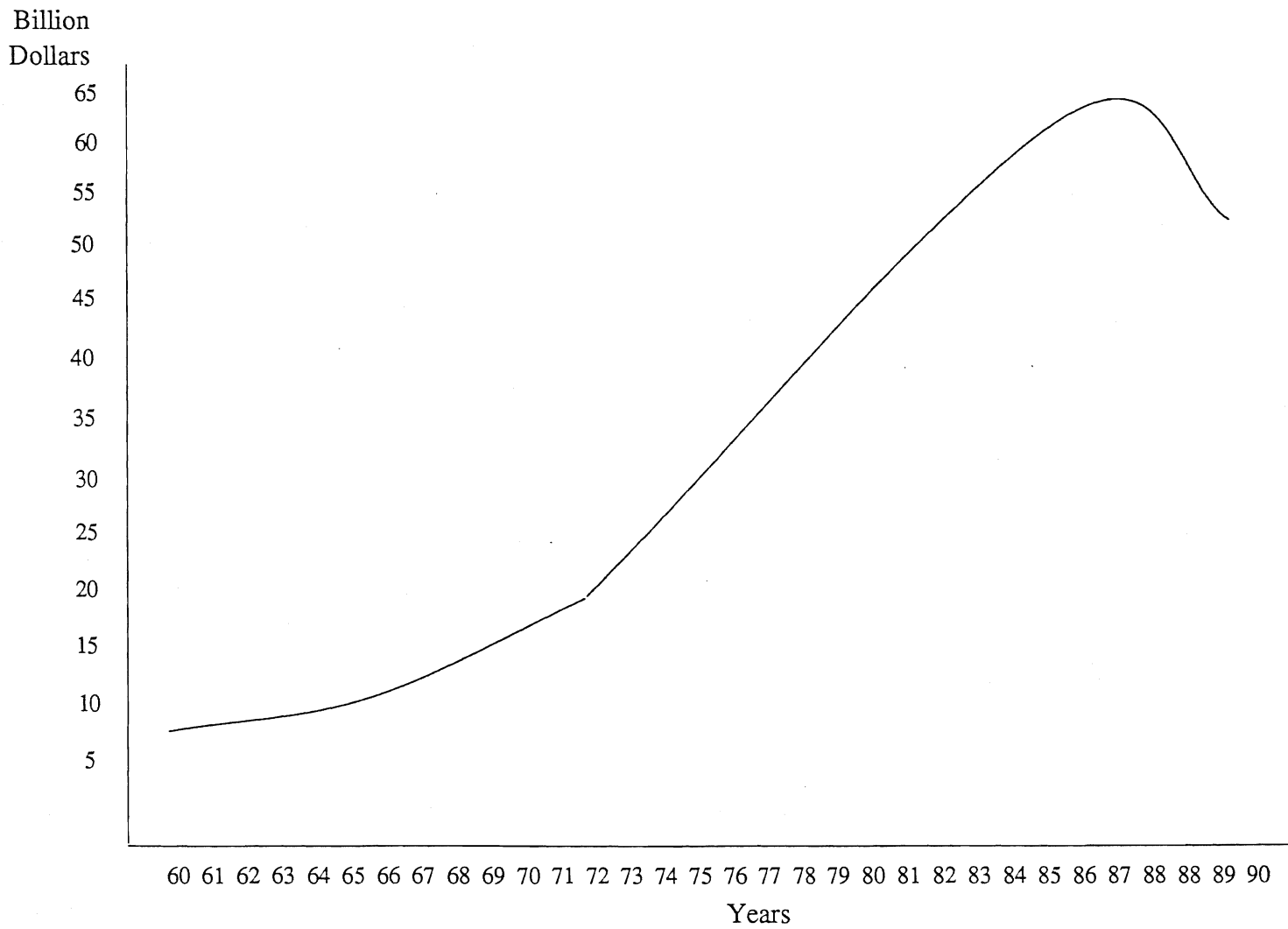
#### ASSETS AND GROWTH TRENDS OF FEDERAL CROWN CORPORATION

##### 1960-1990

Figure 2 shows the growth trends of the assets of federal public corporations over the last three decades. In using Figure 3 to assess the growth trends of the assets of federal government enterprises, it is important to note that inflationary trends also account for a large part of the increase in their value, especially since 1973. In 1960, the assets of federal public corporations were \$7.9 billion.[34] By 1970, they had doubled to \$15.34 billion.[35] From the mid 1970s the assets of federal public corporations have been increasing at a faster rate than in

**Figure 2 Growth Of Assets Of Federal Crown Corporations, 1960 - 1990**

*Source: Compiled From Statistics Canada Catalogue 61 - 203*





the 1960s.[37]

In 1973, assets of federal public corporations stood at \$19.3 billion, and increased to about \$46.9 billion in 1980.[38] In 1985, the assets of federal crown corporations reached a peak of \$62.18 billion.[39] Since 1986 the assets of crown corporations have been declining due to the privatization program and rationalization by the federal government. In 1986 Nanisivik Mines Ltd, CN Route and Canadair Ltd were privatized by the government. In 1987, five more federal crown corporations were privatized; consequently the assets of federal public corporations fell for the first time in 25 years. They fell from \$62.18 billion in 1985 to \$61 billion in 1986. By 1990, the assets of federal crown corporations had declined to \$52.66 billion.[40]

#### SECTORAL DISTRIBUTION OF ASSETS OF FEDERAL CROWN CORPORATIONS

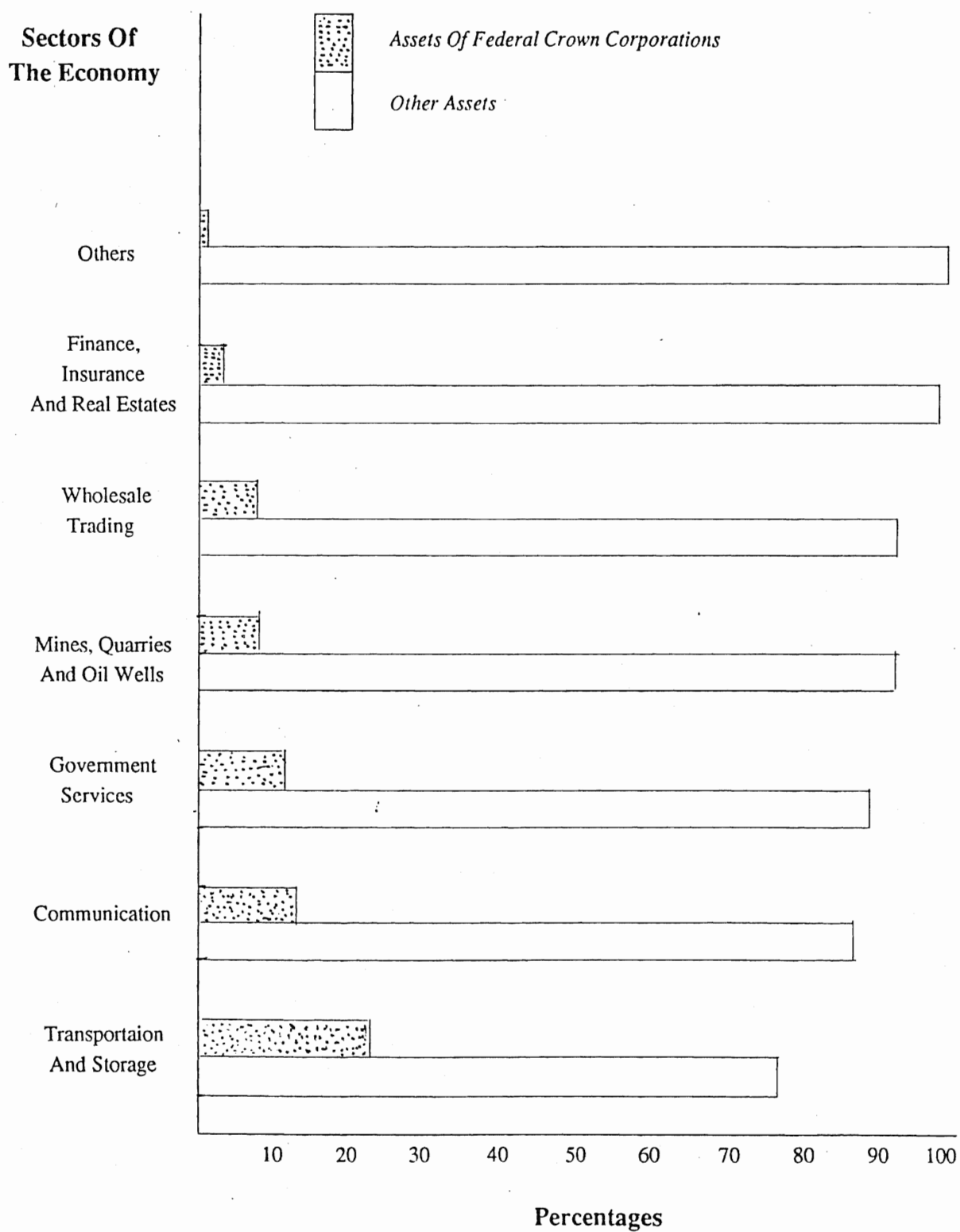
##### 1986

The sector distribution of the assets of federal public corporations in Figure 3 shows the importance of federal public corporations in certain sectors of the economy.

About 23 percent of the assets in the transportation sector of the economy in 1986 were accounted for by federal public corporations. Evidently federal public corporations have played a significant role in the provision of infrastructure. The federal government is the single biggest investor in the transportation

**Figure 3 . Assets Of Federal Crown Corporations As A Proportion Of Total Assets  
For Some Sectors Of The Economy In 1986**

*Source: Statistics Canada: Corporation Financial Statistics Catalogue 61 - 207*



sector of the economy. Some of the enterprises in this sector include St. Lawrence Seaway Authority, Canadian National Railway and Via Rail.

Thirteen percent of the assets in the communication sector were accounted for by federal public corporations. However, Teleglobe Ltd, one of the important public corporations in this sector, has been privatized. The Canadian Broadcasting Corporation and Telesat Canada are some of the important government enterprises in this sector.

In 1986, federal public corporations accounted for about eleven percent of the assets in the government services sector. Some of the federal public corporations in this sector include the Canadian Commercial Corporation and Canadian Patent and Development Ltd. Government departments and institutions such as Statistics Canada and the Treasury Board Secretariat account for the remaining 89 percent.

Mines, quarries, oil and wells is another sector of the economy where federal government enterprises have been established. Federal government corporations accounted for about seven percent of the assets in the mining sector in 1986. The resource sector is normally an enclave for provincial governments, so it is noteworthy that seven percent of the assets in the sector were accounted for by federal public corporations.

About eight percent of the assets in the wholesale trading sector are accounted for by federal crown corporations. This is

the result of the federal government's efforts to stabilize prices by establishing marketing boards such as the Canadian Wheat Board and Canadian Livestock Feed Board.

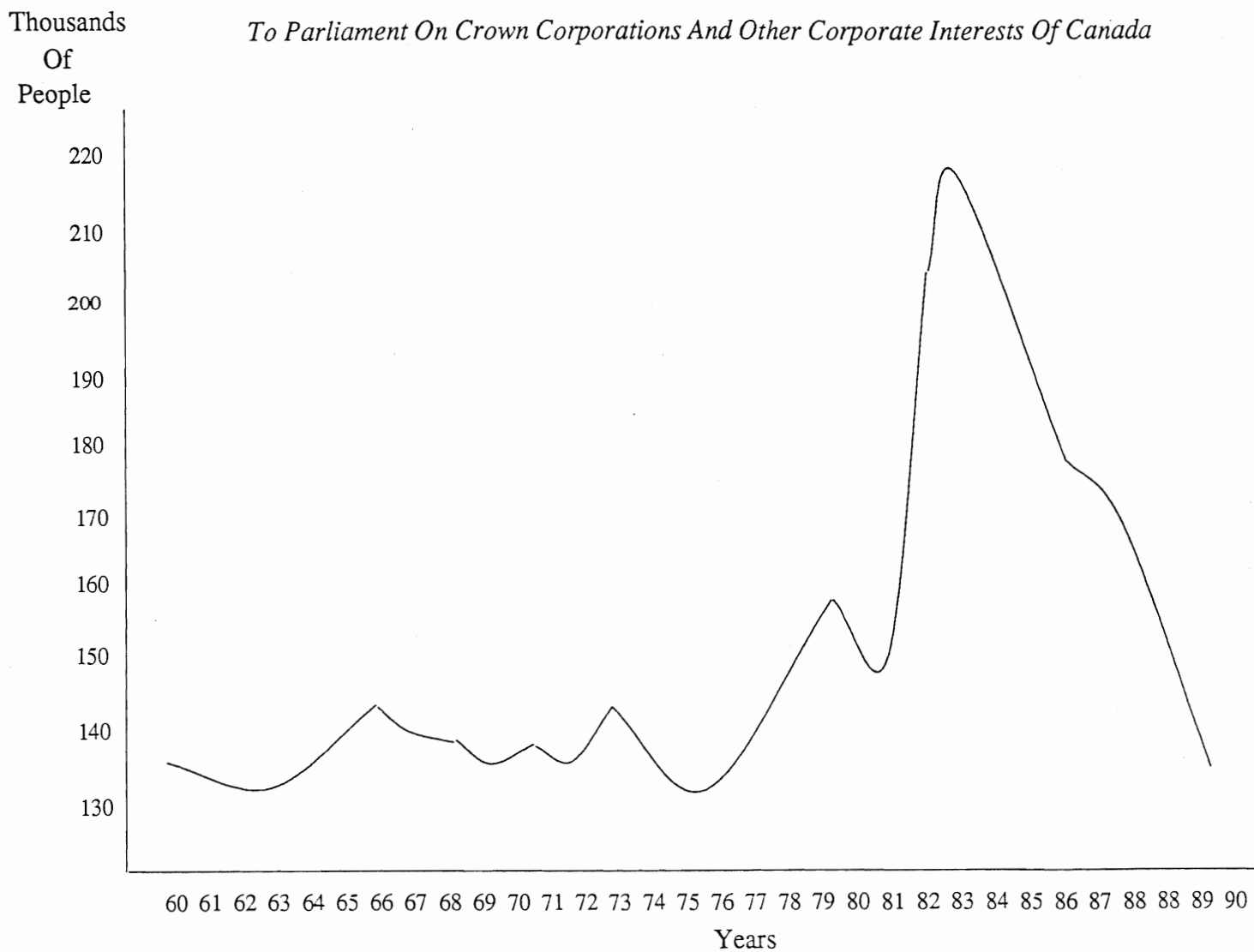
The other sectors shown in Figure 3 include mainly manufacturing and electric power. The federal government has the least investments in these sectors. In the case of electric power, most of the assets are owned by the provincial governments and they include companies like Ontario Hydro and Quebec Hydro. The federal government investment in the manufacturing sector has not been substantial, because the main concern of the government has been the provision of infrastructure, leaving the manufacturing sector to the private sector. When the federal government undertakes manufacturing ventures, it does so either because private investors are not forthcoming or to bail out private firms. The federal government also undertakes manufacturing ventures because of the technological externalities they may generate; a case in point is the Eldorado Nuclear Ltd.

#### EMPLOYMENT TRENDS 1960-1990

Figure 4 shows the employment trends of federal public corporations between 1960 and 1990. In the 1960s, employment figures for federal public corporations were relatively stable ranging between 132,000 and 136,000. (This variation was mainly due to seasonal variation in employment in the transportation sector).[41] In 1966 employment figures reached 142,000 due to

**FIGURE 4: Federal Crown Corporations Employment Trends, 1960 - 1990**

*Source: Compiled From Statistics Canada Catalogue 72 - 004 And Annual Report To Parliament On Crown Corporations And Other Corporate Interests Of Canada*



the increase in employment in almost all federal public corporations and the increase in the number of government enterprises.

Figure 4 shows that employment figures declined from 142,000 in 1966 to 136,000 in 1971 due mainly to about 5,200 lay offs by the Canadian National Railway System.[42] Rationalization in C.N.R. led to a further decrease in employment to about 132,000 in 1976.

After 1976, Figure 4 shows that employment began to increase again, reaching 157,000 in 1980 due to growth in Petro-Canada, Canadair Ltd, De Havilland Aircraft and Freshwater Fish Marketing Corporation.[43] There was a sharp decline to 148,000 in 1981 due to layoffs by C.N.R., Petro-Canada, Air Canada and De Havilland.[44]

In 1983, there was a sharp increase of about 80,000 due to the inclusion of Canada Post Corporation in the federal government enterprises in 1982. However this increase was partly offset by layoffs by the C.N.R. and some rationalization within Via Rail.[45]

From a peak of 212,000 in 1985, Figure 4 shows that employment figures dropped to 174,000 in 1988, and declined further in 1989 to 142,000. This decrease was due to the privatization of 19 federal state enterprises since 1982. Some of the privatized crown corporations include Canadair Ltd, De Havilland, Air Canada, Canadian Arsenals Ltd and Canada

Development Corporation.[46]

In 1990, employment within federal government enterprises decreased to 135,000 due to rationalization within Canada Post Corporation, Petro-Canada and C.N.R..

Compared to the growth trends of assets, it is evident that although employment figures have reduced considerably, assets have only reduced slightly from the 1985 peak.[47]

While employment decreased from a peak of 212,000 in 1985 to 138,000 in 1990, assets dropped from \$62.18 billion in 1985 to \$52.66 billion in 1990. Thus, the rationalization and privatization of federal public corporations have considerably reduced employment within crown corporations. With the exception of Air Canada and Canada Development Corporation, most of the crown corporations privatized were small in terms of assets, so in comparison to employment, assets of public corporations have not registered any significant decrease.

#### CONCLUSION

This overview provides an idea of the size, growth trends and the nature of federal government enterprises in Canada. For analytical purposes, the focus of the review has been on federal public enterprises. However, it is important to note that government enterprises also play an important role at the provincial level. Hopefully the results of this study will provide an appropriate framework for future studies of government corporations at the provincial level.

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### CHAPTER THREE: TWO APPROACHES: POLITICAL ECONOMY AND POLITICAL CULTURE

Various models have emerged in an attempt to explain the public enterprises phenomenon in Canada. The political economy and political culture approaches are two models that have widely been applied to the study of public enterprises in Canada. The focus of this chapter is to examine how these two models explain the emergence of federal public enterprises.

#### POLITICAL CULTURE APPROACH

Political culture is a set of shared beliefs and attitudes which shapes peoples' reactions and perceptions in a political system. Gad Horowitz, Seymour Lipset and Herschel Hardin share the view that the Canadian political culture, unlike the American, is predisposed to the use of public ownership as a policy instrument.[1]

Recurrent themes in Canadian political culture are elitism, conservatism, particularism and statism. In contrast, the United States is considered to be liberal, integrated, individualistic and anti-statist. These characteristics and differences in the Canadian and American political culture may provide explanations as to why public ownership is more frequently used as a policy instrument in Canada than in the United States.

In his article 'Conservatism, Liberalism and Socialism in Canada; An Interpretation', [2] Horowitz established a relationship between the Canadian political culture and public

ownership in Canada using the 'fragment theory' developed by Louis Hartz. According to Hartz, new societies, such as the United States, Australia, South Africa and Canada, are fragments of old societies in Europe and their founders bore ideas and values which did not represent the full spectrum of the ideas or values of their mother country. Hartz observed that "when a part of a European nation is detached from the whole of it, and hurled outward into a new soil, it loses the stimulus toward change that the whole provides. It lapses into a kind of immobility".[3] Thus, these ideological fragments lacked the dialectical forces found in the old societies and were therefore ossified and congealed in these new societies.

Horowitz noted that English Canada, like the United States is a 'bourgeois fragment'; however, the United States is a perfect bourgeois fragment and a repository of an unsullied liberalism and individualism. In the United States the process of frontier settlement spawned a brand of liberalism which provided an impetus for the American Revolution. Influenced by classical Lockean liberalism, American history has been dominated by anti-statism, liberalism and laissez-faire ethics. The founding fathers of the United States were committed to a government which would ensure life, liberty and the pursuit of happiness, and a commitment to the tenet that 'a government that rules least rules best'. This orientation may explain why public ownership is less frequently used in the United States than in Canada.

In contrast, English Canada has a streak of toryism in the liberalism of the founding fathers. Hardin noted that "out of our non-American past, we have tended more to identify liberty with procedures rooted in society." [4] Horowitz also observed that English Canada has been powerfully shaped by tory values such as elitism, ascription and statism which are absent in the United States. It is the view of Horowitz that "one tory touch is... the far greater willingness of English Canadian political and business elites to use the power of the state for the purpose of developing and controlling the economy". [5]

Horowitz observed that the conservatism of English Canada is committed to organic unity, collectivism and particularism, eschewing the individualism that characterized American liberalism. The collectivism of English Canadian liberalism gave a tinge of 'socialism' to English Canada's political culture, but it lacked the egalitarianism of 'socialism'. Nevertheless it inclined the Canadian political culture to statism. The tory streak in English Canada was further strengthened by the American Loyalists who had rejected the American Revolution and had migrated to Canada. Horowitz noted that English Canadian liberalism is "accompanied by vital and legitimate streams of toryism and socialism." [6]

He also observed that because of the elitism and particularism of toryism, tinged with socialism, the Canadian

polity is inclined to use the power of the state to maintain the status quo. English Canadian liberalism, according to Horowitz "is less individualistic .....[and] more inclined to state intervention in the economy and more tolerant of 'feudal survivals' such as monarchy." [7]

In Canada, the French feudal and clerical elites and English Tories who settled in North America were against the ideas of liberty and equality that the French and American Revolutions had stood for. The French clerical and feudal elites were committed to collectivism and the hierarchical tradition that characterized feudal societies. Moreover, they were determined to stem anglophone domination; consequently, they were more inclined to use the power of the state to preserve their tradition.

The Family Compact and the Chateau Clique were determined to use the state apparatus to preserve their economic and political privileges as well as to promote economic development. Reg Whitaker observed that "the Canadian elite of both linguistic groups saw the need to use the state to protect minority cultures" [8] and stimulate economic development. This underlines the statism of the Canadian political culture which has frequently led to the creation of public enterprises.

After the rebellion of 1837, French and English Canada formed the United Province of Canada in 1840. There was a perceived need for communication between French and English Canada, so the Grand Trunk Railway was conceived with government assistance in

1850. Speaking in the House of Commons in 1918, Hon Wilfrid Laurier noted that

"it was felt in Canada that the Grand Trunk enterprise could not be carried out unless there was government assistance. Nobody would find fault with the government for having initiated the system of government assistance..... everybody realizes that unless that assistance had been given.....it is questionable whether the country itself would have endured as a political entity".[9]

Even before Confederation, the elites of French and English Canada saw the need for state assistance and intervention. Statism was accepted by both the French and the English elites as a means of binding the Union together and facilitating economic development. This statist tradition was carried over to Confederation. Wilfrid Laurier's statement also suggested that the political elites were committed to statism after Confederation.

The Constitution Act of 1867 enjoined the federal government to construct a railroad to link the Maritime provinces to central Canada. The Act stated that

"In as much as the provinces of Nova Scotia and New Brunswick have joined in a declaration that the construction of the Intercolonial railway is



essential to the consolidation of the Union of British North America and the assent, there to, of Nova Scotia and New Brunswick and have consequently agreed that provision should be made for its immediate construction by the government"[10].

The statist tradition of the Chateau Clique and the Family Compact, which was evident during the Union of Lower and Upper Canada, was also evident in the Constitution Act of 1867. State construction of the Intercolonial railway was considered "essential to the consolidation of the Union of British North America" Thus, public ownership of railroads was seen as a cohesive instrument binding the Maritime provinces to central Canada.

Canadian policy makers were favourably disposed to the use of public enterprises at the very beginning of the nation. However, in the United States, Lloyd Musolf noted that, "it took the turbulent twentieth century to provide a major stimulus to public enterprises".[11]

In 1932, when the Hon. R.B. Bennett, the Prime Minister and leader of the Conservative Party moved the second reading of Bill No. 94 establishing the Canadian Radio Broadcasting Commission, he stated that "no other scheme than that of public ownership can ensure to the people of this country, without regard to class or place, equal enjoyment of radio broadcasting."[12]

The Prime Minister's statement illustrated the cultural disposition of policy makers in Canada to use public ownership. The statement leaves the impression that public ownership was the only governing instrument that could guarantee radio broadcasting to all the peoples of Canada. Although in recent times more egalitarian values are permeating the Canadian political culture, elitism has not been obliterated and statism is still part of that culture.

In an address to the Women's and Men's Canadian Club of Ottawa in 1976, Pierre Trudeau also endorsed the statist tradition of the Canadian political culture. He stated that

"The free market system, in the true sense of that phrase, does not exist in Canada. I have said that we have not been able to make even a modified free market system work.....We have not had a free economy in Canada, but a mixed economy".[13]

Trudeau's statement reflected once again the disposition of the Canadian elite to big government and public ownership. His statement that a modified free market has not been possible in Canada, suggests a disposition on the part of the political elites to intervene and sometimes use public ownership. Hardin has also noted that "Canada, in its essentials, is a public enterprise country...Americans have, or at least had, a genius for private enterprise; Canadians have a genius for public enterprise." [14]

Horowitz noted that in Canada all political parties are inclined to statism. The Conservative Party is the champion of toryism; although committed to 'business liberalism', it has traditionally shown a paternalistic concern for the people and the nation, which is sometimes expressed in state intervention and the creation of public enterprises. The tory touch of English Canada's liberalism has given impetus to social democratic parties such as the CCF/NDP, which are committed to state intervention. And the Liberal Party, influenced by socialism and lacking the monolithic individualism of American liberalism, is also committed to statism. Horowitz cited the increased role of the state when the Conservative Party under the leadership of Bennett and the Liberal Party under King held power to corroborate his assertion that parties of all shades in Canada have been committed to statism and public ownership.

This disposition towards 'big government' or public ownership is not limited to the elites. Canadians in general have traditionally been more inclined to big government than Americans. A Gallup poll conducted by the Canadian Institute of Public Opinion [15] on the state and the economy between 1938 and 1942, showed that Canadians are more favourably disposed to public ownership than Americans.

While only 45 percent of the respondents objected to government ownership in Canada, 70 percent objected in the United States. This demonstrated that Canadians are more inclined to

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TABLE 3 : PUBLIC OPINION ON GOVERNMENT OWNERSHIP (1939, 1942)

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In 1942, Canadians were asked "Do you think that after the war it would be a good idea for the government to run all industries that handle and distribute certain necessities of life- like milk, bread, and fuel and sell them to the public without profit"

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|                | Yes,<br>in favour | No<br>oppose | Undecided<br>no opinion |
|----------------|-------------------|--------------|-------------------------|
| National Total | 44%               | 45%          | 11%                     |

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In 1939, Americans were asked "Do you think the government should operate all, some, or none of the factories producing the essentials of life like clothes, food etc."

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|                       |       |
|-----------------------|-------|
| All                   | 7.3%  |
| Some                  | 14.3% |
| None                  | 70.0% |
| Don't know or depends | 12.0% |

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public ownership and big government than Americans. It must be noted, however, that the polling data were compiled at different times and the questions asked were different, but they still reflected the attitudes of Canadians and Americans to 'big government'.

A recent poll conducted in 1968 by the Canadian Institute of Public Opinion support the evidence that Canadians are more favourably disposed to 'big government' than Americans. The results of the polls, depicted in Table 4, show that while only 23 percent of the Canadian respondents considered 'big government' a threat in the future, 46 percent of the American respondents felt the same too. (see Table 4)

In the mid 1970s, Stephen Arnold and Douglas Tigert [16] appraised some empirical data to assess the similarities or differences between Americans and Canadians. One of the areas surveyed by the study was American and Canadian attitudes towards collectivism and individualism. Table 5 shows the personality items used in assessing public orientation towards individualism and collectivism in both countries. Table 5 reveals that Canadians are more disposed to big government than Americans and would readily condone government intervention. Due to Canadian attitudes towards big government, they are more likely to favour government intervention than Americans. This may explain public ownership of radio broadcasting and air carrier services in Canada, while in the United States private ownership with

TABLE 4: PUBLIC OPINION ON BUSINESS, LABOUR AND GOVERNMENT

Canadians and Americans were asked "In your opinion which of the following will be the biggest threat for this country in the future, 'big business', 'big labour' and 'big government'".

|                | United States | Canada     |
|----------------|---------------|------------|
| Big Business   | 12%           | 18%        |
| Big Labour     | 26%           | 34%        |
| Big Government | 46%           | 23%        |
| Can't Say      | <u>16%</u>    | <u>28%</u> |
|                | 100%          | 103%*      |

\* Some named more than two threats

Source: The Gallup Report, Canadian Institute of Public Opinion, January 11, 1969

government regulation was the desired policy instrument.

Conservatism is another recurrent theme in the Canadian political culture which may have influenced the creation of public enterprises. Writing on Canadian conservatism, Seymour Lipset noted that "the stronger conservative orientation north of the border historically has meant a larger role of the state in the Canadian economy".[17] Horowitz shares the same view when he stated that Canadian conservatism "has a touch of traditional tory aura, traditionalism, a strong state and so on." [18] Due to the rejection of individualism by Canadian conservatism, the commitment to organic unity and a paternalistic orientation, Canadian policy makers have more frequently used public enterprises than the United States.

It has been suggested that because Canadians are conservative and risk averters, they are less likely to develop a vigorous private sector, consequently public enterprises have increasingly been established to fill the gaps left by the private sector. Seymour Lipset has suggested that "if Canadians are more conservative in their behaviour in the private sector, they have been much more prone to rely on the state to handle economic and other matters." [19]

In 1974, the Science Council of Canada also concluded that Canadians avoid risk and are less likely to undertake new ventures. The Council noted that "Canadians have one of the highest rate of savings in any country in the world,...but tend

TABLE 5: PUBLIC OPINION ON COLLECTIVISM

| <u>Individualist-Collectivist Personality Trait: Socialistic</u> |               |               |
|--|---------------|---------------|
| PERSONALITY ITEMS  | MEAN LEVEL OF |               |
|  | AGREEMENT     |               |
|  | Canada        | United States |
| The government in Ottawa (Washington)                            |               |               |
| is too big and powerful  | 40            | 54*           |
| The government should guarantee                                  |               |               |
| every one at least \$3,000 per                                   |               |               |
| year whether he works or not                                     | 36            | 14*           |
| Communism is the greatest peril in                               |               |               |
| the world today (M)  | 54            | 70*           |

0= Definitely Disagree; 20= Generally Disagree; 40= Moderately Disagree; 60 = Moderately Agree; 80= Generally Agree; 100= Definitely Agree; (M)= Males only

\* Differences is statistically significant at 0.001 level

Source: Arnold, S. and Tigert, D. 'Canadians and Americans: A Comparative Analysis' in International Journal of Comparative Sociology, 1974 XV,1-2, p.81



consistently to avoid offering encouragement to entrepreneurs with new technology-based products: as a nation we avoid this kind of business risk." [20]

Partly because they avoid this kind of business risk, Canadians have not been able to provide the entrepreneurial zest necessary to harness the innovativeness exhibited in Canada. It is the view of Hardin that the way the Canadian colony was settled may have precluded the development of entrepreneurship in Canada. He notes that "the Canadian dialectic never allowed a dynamic free enterprise culture to take hold at the centre of the country's life." [21] For example, in 1885 Tom Montgomery built an automobile in Sarnia, other Canadians followed his example and built automobiles, but this did not foster an indigenous automobile industry in Canada. J. J. Brown observed that "after some interesting bouncing about and experimentation during the early years, the Canadian automobile industry settled down to being a pale copy of that of the United States." [22] Hardin has also noted that "with few exceptions, private enterprise culture in Canada has been a feeble generator of the kind of entrepreneurial zest that marks a dynamic modern society off from a stagnant one." [23]

Thus, the Canadian private sector has not been vibrant as the the private sector in the United States. The lack of entrepreneurship has led to a situation where the government is increasingly called upon to assume some of the entrepreneurial

responsibilities, this has sometimes meant the creation of public enterprises. According to Hardin public enterprises such as the CNR, Polysar Ltd. and Atomic Energy Canada Ltd. filled a vacuum in Canadian entrepreneurship by taking innovative ventures in the course of their operations.[24] Public enterprise is a practical expression of Canadian entrepreneurship. In contrast to Canada, the American ethic of laissez-faire liberalism and individualism spawned an entrepreneurial zest which require less government support.

Partly because of the weakness of the private sector, the state is unable to interest the private sector in undertaking or sustaining certain economic ventures which are considered essential. Consequently, public enterprises have been created to fill the gaps left by the private sector. Cases in point are Air Canada Ltd, Consolidated Computer Inc., Fisheries Products International and Canadair Ltd., all former federal crown corporations which were created, in part, because of the failure of the private sector. Hardin has suggested that the Canadian public enterprise culture has been influenced by three sets of contradictions; "1) French Canada as against English Canada; 2) The region as against the federal centre; 3) Canada as against the U.S.."[25] According to Hardin, it is within these contradictions that Canada has defined itself. Within these contradictory and centrifugal forces, Canada has consistently worked towards integration, national identity and national unity,

sometimes by creating public enterprises with nation-building objectives.

The first set of contradictions - the dualism between French and English Canada - has always been a part of the Canadian political culture. Section 133 of the Constitution Act of 1867 guaranteed the use of French and English in Canada. This dualism was further entrenched by the Official Languages Act of 1970 and in Section 16 of the Constitution Act of 1982.

Confederation was an attempt to unite English and French Canada together as well as preserve the culture of French Canada. This dual motive of unity and preservation has been the focus of the contradiction between French and English Canada. It is the objective of the federal government to preserve the distinct French culture as well as integrate it into mainstream Canadian culture. On the other hand, Quebec is determined to preserve the French culture, sometimes with threat of secession and at other times with preemptive measures to stem anglophone domination. These preemptive measures have sometimes involved the creation of public enterprises to stimulate economic development. The 'Quiet Revolution' in Quebec was an attempt by the provincial government to ensure the survival of the French culture and prop up the fledgling Quebec bourgeoisie. This was part of the motivation underlying the creation of a number of public enterprises including SOQUIP, SOQUEM and SIDBEC.

At the federal level, nation-building institutions such as

Canadian Radio Broadcasting Commission and Trans Canada Airlines were cohesive instruments partly intended to weld English and French Canada together. The Canadian Broadcasting Corporation is of particular interest, since it was intended to broadcast in English and French. In 1932, when the Canadian Radio Broadcasting Act was being discussed in the House of Commons, Hon. Ernest Lapointe, a member of the Liberal opposition, from Quebec East stated that "I have been supporting this principle from the first, more particularly after the work of the Aird Commission....I congratulate the house for having the Bill introduced." [26] Thus in spite of the contradiction between French and English Canada, the member from Quebec supported the bill to create the CBC, since it would be transmitting in French and English and ensuring a place for French culture in a predominantly English Canada. CRBC was a reflection of the dualism in Canada, it was intended to attenuate the centrifugal forces of dualism as well as endorse the inherent dualism by broadcasting in English and French. Perhaps, it is only through public ownership that dualism and unity could simultaneously find expression.

In Canada, the contradiction between the regions and the centre, according to Hardin, has sometimes led to state intervention and the creation of public enterprises. [27] Confederation was an attempt to bring the Atlantic colonies and central Canada into a federal system as well as preserve their

distinct regional characteristics. Although the Maritime provinces, - Nova Scotia, New Brunswick and Prince Edward Island, - joined Confederation voluntarily, they were not enthusiastic. Newfoundland did not join Confederation until after World War II. In the west an Act of Parliament established Manitoba in 1870. Alberta and Saskatchewan were created in 1905.

The ethnic composition of these provinces, the process of settlement and the way they were brought into Confederation have fostered distinct political orientations and cultures that have set them apart. In the Maritime provinces, persistent economic depression, economic marginalization and out-migration have provided the grounds for political discontent and a regional political culture. In the west, economic discontent against the dominance of central Canada and a mistrust of the central government have resulted in alienation. In the context of western alienation and the marginalization of the east, distinct regional political cultures have emerged and the federal government has had to intervene and sometimes create public enterprises with nation-building objectives to bind the disparate regions together. Due to the contradictions between the regions and the centre right after Confederation, the federal government was very much concerned with the unity of the nation and acted as a centripetal force. The objective of national unity may have motivated the founding fathers of Confederation to entrench the construction of the Intercolonial railway in the Constitution Act

of 1867. Wilfrid Laurier noted in 1918 that "from a national point of view ...unless the Intercolonial railway has been constructed Confederation could not have been established." [28] In spite of the commitment to construct the Intercolonial railway, immediately after Confederation, a government committed to the revocation of Nova Scotia's entry into Confederation was elected in Nova Scotia.

Although the National Policy may have stimulated economic growth in the Maritime provinces, the fishing, forestry and agriculture sectors of the economy were not fully integrated into the national economy. Thus, although Confederation may have integrated the Maritime provinces politically they were not economically integrated. This may have contributed to the growth of a regional political culture distinct from the rest of Canada.

One of the main thrusts of the National Policy was to encourage the settlement of the prairie provinces and establish communication links between the regions and central Canada. The subsequent demographic changes that accompanied the settlement of the west led to changes in the distribution of the seats in parliament. The Maritime provinces lost part of their political leverage to the west. Gibbins noted that "the settlement of the west was occurring at the expense of the Maritime provinces and its long term effect would be a diminished role of the Maritimes in the Canadian community." [29]

Although some of the settlers in the west were from other

parts of Canada, most of the migrants were from the United States and Europe and did not have much in common with the rest of Canada. The diverse origins of the migrants cast the west in a multicultural setting in contrast to the dualism of the rest of Canada. The diverse elements of the west were bound together by the wheat economy. Gibbins noted that "the wheat economy facilitated the political integration of the prairie west and set the region apart from the rest of Canada." [30]

Communication between the west and the east was considered an important cohesive instrument. When British Columbia joined Confederation in 1871, the federal government promised to link British Columbia to the east, so the government supported the construction of the Canadian Pacific. The government also supported the construction of the Grand Trunk Pacific and the Canadian Northern to strengthen the bonds between the centre and the regions. In 1904 the government began the construction of the National Transcontinental railway to link Moncton to Winnipeg.

Regional discontent in the west was first directed against the tariff system of the National Policy. The farmers were also against the near monopoly power of grain elevators, Canadian Pacific Railway and chartered banks controlled from central Canada. The encouragement of the Canadian Northern was partly intended to appease disgruntled farmers in the west. The prairie provinces also resented the institution of party discipline which impelled representatives from the west to toe party lines rather

than serve regional interests. This economic and political discontent stimulated an alienated regional political culture which was sometimes translated into the formation of regional political parties such as the Cooperation Commonwealth Federation (later the NDP), United Farmers of Alberta and Social Credit to articulate regional interest and challenge the national government. The Farm Credit Corporation (1927) and the Canadian Wheat Board (1935) were created partly to appease regional discontent in the west and reduce regional mistrust of the federal government.

Political and economic discontent in the Maritime provinces in the 1920s provided the impetus for the formation of the Maritime Rights Movement, demanding better terms for the Maritimes provinces. In the interwar years, two important federal public enterprises were created by the federal government. In 1932 the government created a national radio broadcasting service - Canadian Radio Broadcasting Commission. According to the Prime Minister "a radio broadcasting controlled and operated in this way can serve as a dependable link in a chain of empire communication by which we may be more closely united one with the other." [31] He also noted that public ownership of radio broadcasting will meet the needs of people of all classes in every part of Canada. This reflects the paternalistic concern for regions and its people. It is also evident that one of the objectives which motivated the creation of the CRBC was national



unity and the need to foster closer ties between the distinct regions of Canada. In 1937 Trans Canada Airlines was also created by the federal government with nation-building objectives. TransCanada Airlines was intended to provide cargo and freight services between major centres in Canada and serve as a symbol of nationhood.

In spite of the attempts of the federal government to foster closer ties between the centre and the regions by creating public enterprises with nation-building objectives, regional differences still persist. Simeon and Elkins contended that there are still variations in provincial political orientation and culture. Using data collected in 1965, 1968 and 1974, Simeon and Elkins assessed provincial orientation towards political efficacy, political trust and involvement. They concluded that there was significant provincial variation in political culture and orientation.[32]

This variation in political culture and orientation between the regions may have motivated the creation of a mixed enterprise, Telesat Canada, in 1968. Admittedly, there were other motives underlying the creation of Telesat Canada, but national unity also influenced the decision of the federal government. When the Minister of Communication introduced the Telesat Canada Act, he stated that satellite communication will

"provide...service to the north and underdeveloped regions to bring those areas into mainstream Canadian life and a supplementary service to the

existing east-west microwave network  
....Once in operation the domestic  
satellite communication will constitute  
a project of which all Canadians will  
be proud."[33]

Thus, Telesat was not only a symbol of nationhood, it was also intended to foster closer ties amongst the regions and the centre. The federal government's attempt to foster closer ties between the centre and the regions was evident in a speech delivered to the Canadian Club in Ottawa in 1976 by Pierre Trudeau, he noted that

"every reasonable person now recognize  
the duty of the federal government to  
manage the country's economy in the  
interest of all its people and its  
regions. The duty carries with it the  
consequent responsibility to intervene  
when necessary to stimulate employment,  
[and] redistribute income".[34]

His statement reflected the paternalistic concern of the federal government to manage the economy in the interest of all the regions to establish closer bounds between them. This has characterized the federal government's attitude towards the regions. Meanwhile the regions' attempts to assert their independence has sometimes led to the creation of public enterprises at the provincial level. This was the case in the 1960s when most of the provinces created public enterprises such

as, the Alberta Energy Corporation, British Columbia Petroleum Corporation, SOQUIP and Saskatchewan Oil and Gas Corporation. Through these public enterprises the provinces were able to formulate their own economic policies in spite of the federal government.

In recent times there is no evidence to suggest that federal public enterprises have been created to reduce the contradictions between the centre and the regions. Other policy instruments, such as first Ministers' Conferences, constitutional talks and the attempts to eliminate intra-provincial barriers, have become the desired policy instruments intended to foster closer ties between the centre and the regions.

Hardin's third contradiction involves the United States and Canada. The federal government, according to Hardin, has frequently intervened to address the contradiction between the United States and Canada. American attempts to absorb Canada since the War of Independence has fuelled nationalist and anti-American sentiments in Canada. The United Empire Loyalist who fled to Canada, according to Gibbins, were anti-American Americans who "helped put in place the cornerstone of Canadian nationalism." [35] The War of 1812 also fuelled anti-American sentiments in Canada.

After Confederation, American military threats declined but the idea of 'manifest destiny' provided a philosophical basis for Americans to reject an independent Canada, consequently, there

was a deep seated feeling in Canada to establish an independent nation. Hardin has suggested that "national independence being a collective quest...would produce a public enterprise ethic." [36] The collective quest for national independence influenced the construction of the Intercolonial railroad. The National Policy was influenced by Canadian nationalism and the need to stem American influence and domination. The National Policy imposed tariffs on imports from the United States to stimulate industrial growth in Canada. It also encouraged the settlement of the west to prevent the American frontier from encroaching on the Canadian frontier in the west. The government provided incentives for private companies to construct railway lines on a east-west axis to stem the north-south pull. This led to the construction of the Canadian Pacific, Grand Trunk Pacific and Canadian Northern by the private sector. In 1904 the government began the construction of the National Transcontinental railway as part of a broader objective to unite Canada together.

At the turn of the century Canada became more concerned about the growing American presence. According to Gibbins "as the twentieth century unfolded Canadian fears of absorption were replaced by anxieties over the growing American presence within Canada." [37] This growing concern spurred Canadian nationalism which is sometimes streaked with anti-American sentiments. [38]

In the interwar years Canadians were particularly concerned about American domination of radio broadcasting and air carrier

services. In the case of radio broadcasting, Frank Foster noted that in the late 1920s "Americans had gained the upper hand by serving Canada....Rather than acknowledging Canadian sovereignty within Canadian borders, American broadcasters were saying that, for radio broadcasting the border did not exist." [39] American domination of radio broadcasting was hindering the development of indigenous Canadian broadcasting services. Moreover, American domination of radio broadcasting was stifling the growth of a Canadian cultural identity. Consequently, in response to the recommendations of the Royal Commission on Broadcasting, the Canadian Radio Broadcasting Commission was created in 1932 with cultural and nation-building objectives.

Trans Canada Airlines was another public enterprises which nation-building objectives created in 1937. American domination of air carrier services in Canada partly motivated the creation of the Trans Canada Airlines. According to Garth Stevenson, part of the motivation for the creation of the TCA was "to link the scattered regions of Canada together and to do so without reliance on the United States." [40] Langford also noted that the pressure to create TCA partly came from "the expansionary tendencies of private American airlines." [41] Thus, both Stevenson and Langford acknowledged that the presence of the United States and threat of American domination partly motivated the creation of TCA. The proximity of the United States and the threats of domination have influenced the choice of policy

instrument in Canada. According to Hardin, Canada "is a defensive reaction against the United States." [42]

In the post war era, the concern about the growth of American investment and technology sometimes stirred anti-American sentiments. The intense sense of cultural nationalism directed against the United States in the late 1950s and early 1960s led to the creation of the Canada Council in 1957 and Canadian Radio-Television Commission (now Canadian Radio-Television and Communication Commission) in 1968. The Canada Council was intended to promote Canadian culture and scholarship while the Canadian Radio-Television Commission was intended to regulate the content of radio and television broadcast and ensure significant Canadian content.

Gallup polls conducted by the Canadian Institute Of Public Opinion to assess Canadian views on the American presence, revealed that more Canadians were concerned about the American presence in the late 1960s and early 1970s than in the 1950s. (see Table 6) The results of the polls showed that, while 27 percent of the respondents felt that the American influence was too much in 1956, 53 percent felt the same way in 1966 and 57 percent in 1974. The results of the polls may support the suggestion that, since the 1960s, nationalist sentiments and anti-American feelings in Canada have been increasing. In a survey of public opinions polls on American-Canadian relations in the 1970s,

TABLE 6 : PUBLIC OPINION ON THE AMERICAN PRESENCE

CANADIANS WERE ASKED "DO YOU THINK THE CANADIAN WAY OF LIFE  
IS, OR NOT, BEING INFLUENCED TOO MUCH BY THE UNITED STATES"?

| YEAR | TOO MUCH<br>INFLUENCE | NO NOT<br>MUCH | UNDECIDED |
|------|-----------------------|----------------|-----------|
| 1956 | 27%                   | 63%            | 10%       |
| 1966 | 53%                   | 36%            | 11%       |
| 1974 | 57%                   | 35%            | 8%        |

Source: The Canadian Institute of Public Opinion  
The Gallup Report, May 25, 1974

Sigler and Goresky suggested that "nationalist feeling among many English-speaking Canadians is closely tied to a negative reaction to American cultural and economic penetration." [43] The federal government attempt to meet the demands of nationalist sentiments and address the overwhelming American influence, sometimes took the form of state intervention and the creation of public enterprises.

In 1971 the federal government created the Canada Development Corporation(CDC) in response to demands by some nationalists that some form of government intervention was required to address the high degree of foreign control, especially American control, in Canada. Writing on the CDC, Stephen Brooks noted that "economic nationalists viewed it as a necessary part of a broader policy of repatriating economic decision-making." [44] The rise of economic nationalism in the 1970s may have contributed to the decision of the Liberal government to establish the CDC.

The Foreign Investment Review Agency (now Investment Canada ) was created in 1974 to screen and regulate foreign direct investment in Canada. The creation of the FIRA may have been influenced by the upsurge of nationalist sentiments and the desire to preempt further American control of the Canadian economy.

The Canadianization drive in the 1970s led to the creation of PetroCanada(1975) and the introduction of the National Energy Program in 1980. The NEP was intended to ensure significant



Canadian presence in the oil and petroleum industry . In Canada, economic nationalism and Canadianization programs are most often tinged with some anti-American bias, considering the proximity and the overwhelming presence of the United States in Canada.

It may be suggested that the contradiction between the United States and Canada has stirred nationalistic impulses, and sometimes anti-American bias, which have been translated into state interventionist policies and, sometimes, public enterprises with nation-building objectives.

Hardin observes that these contradictions lead to a dialectical process resulting in the creation of public enterprises in Canada. He noted that

"The contradiction between the small Canadian market and the North American continent - is still operative, acting as ever as a forcing instrument of new public enterprises .... There are other dialectics at work, stemming from the contradictions between French and English Canadas, and between the regions and the federal centre. These dialectics are also forcing instruments of new public enterprises." [45]

These contradictions stimulate nationalist sentiments which are expressed in the creation of public enterprises. Hardin points out that "the public enterprise culture is the practical expression of Canadian nationalism." [46]

### POLITICAL ECONOMY APPROACH

State intervention has always been a feature of the predominantly laissez-faire economies of western Europe and north America. Though the economies of these laissez-faire countries are controlled mainly by private capital, public ownership and state intervention have been used to facilitate private capital accumulation and to secure and maintain the legitimacy of the capitalist system. As observed by Leo Panitch, the "capitalist state must fulfill two basic and often mutually contradictory functions - accumulation and legitimization." [47] In Canada the fulfillment of these two objectives sometimes entails the use of public ownership.

One of the central themes of the political economy approach is class analysis. The issue of class and the state has been the subject of intense academic debates and various perspectives have emerged. [48] This thesis will opt for the structuralist approach, which states that the state is 'relatively autonomous' from the capitalist class and acts in the interest of all factions within the capitalist class and sometimes in the interest of subordinate classes to ensure the long-term survival of the capitalist system. [49] Public enterprises are one of the many policy instruments employed by the state to facilitate private capital accumulation by the capitalist class as a whole. Sometimes the factions within the capitalist class may have contradictory or conflicting goals. Even in these circumstances

public enterprises may be established and may serve the interest of one fraction against another.

The origins of public enterprises in Canada may have been influenced by the nature of the class structure. Niosi shares the view that one of the elements underlying the creation of public enterprises in Canada is the "levels of development, consciousness and organization of each class and each segment within each class in Canada as a whole and in each province." [50]

For example in 1919, when the government decided to nationalize the Canadian Northern and Grand Trunk Pacific, it considered the interests of various classes. [51] The government assumed ownership partly to ensure the credit worthiness of the nation. Although the CPR was not nationalized, the nationalization of CN served the interests of western grain farmers who resented the near monopoly power of the CPR. Thus, nationalization served the interests of various classes, facilitating private capital accumulation by grain farmers, merchants and private interests in railways. Other infrastructural projects such as the Intercolonial, National Transcontinental and TransCanada Air Lines also facilitated capital accumulation. In the case of Trans Canada Airlines, Stevenson has suggested that it served the interest of the capitalist class as a whole by complementing the existing infrastructure. [52] Leo Panitch also observed that "state ownership of railroads and utilities and state construction of

airports were... undertaken....with a view to facilitate further capital accumulation in the private sphere."[53]

The Great Depression seriously affected wheat farmers in the prairies; prices were so low farmers could not meet the cost of production. This fuelled political discontent and gave impetus to the formation and radicalization of the farmers' movement as well as demands on the federal government to address some of the effects of the depression, and curtail the domination of the wheat economy by chartered banks and grain elevators. The government responded to these demands by creating the Farm Credit Corporation in 1927 and the Canadian Wheat Board in 1935. According to Niosi both public enterprises were established by the state "to maintain social order in the country side."[54]

Although post war economic policies were designed to secure the long-term survival of the capitalist system, they benefited some fractions of the capitalist class. Of particular interest are the Federal Business Development Bank and the Export Development Corporation, all post war public enterprises. The Federal Business Development Bank was intended to provide credit facilities and business services to small businesses, while the Export Development Corporation assisted manufacturers to explore the export market.

Sometimes the state undertakes policies that serve the interests of subordinate classes in order to ensure the legitimacy of the capitalist system and avert social unrest. In

the 1960s, Hawker Siddeley, a British multinational which owned DOWCO coal mines in Nova Scotia, was planning to divest its operation in Cape Breton, which would have led to the loss of 6,500 jobs. The government intervened by nationalizing DEVCO in 1968, partly to avert the loss of jobs. Bickerton has noted that the alternative to nationalization would have been "unprecedented social and economic crisis in that part of the country ...the attendant social disruption was something that no modern government could permit to happen." [55]. Nationalization of DEVCO was partly a legitimization action to please coal miners in Cape Breton.

Primary producers are one of the well organized groups in Canada and have therefore been able to pressure the government in designing policies to assist them. The collapse of commodity prices in the 1960s impelled the federal government to intervene by creating marketing boards, such as the Canadian Dairy Commission (1966) and the Canadian Livestock Feed Board (1966), to stabilize incomes of primary producers. According to Niosi the funds invested in these marketing boards were "used to maintain social and political legitimacy and a certain level of economic activity and employment." [56] These marketing boards served the interests of primary producers as well as the dual objectives of accumulation and legitimization.

Since World War II, American investment in Canada has been growing leading to the development of branch plants and an

identifiable comprador bourgeoisie. However, because government regulations restrict foreign investment in some sectors of the economy, such as insurance, finance, utilities and transportation, foreign investment has been directed mainly into the resource and manufacturing sector. Certain fractions of the indigenous bourgeoisie in the manufacturing and resource sectors must therefore compete with subsidiaries of American multinationals as well as deal with takeover bids. Wallace Clement noted that the middle-range bourgeoisie is the "fraction of the Canadian bourgeoisie which frequently uses nationalism as a lever for the preservation of its position and it is also this fraction which is frequently forced to 'sell out'." [57] In the 1960s the nationalist fraction of the capitalist class pressured the government to address the high degree of foreign investment. In 1958, The Royal Commission on Canada's Economic Prospects chaired by Walter Gordon, a Toronto businessman (and subsequently Minister of Finance), proposed the establishment of a state-owned venture capital institution to reduce the dependency of certain fractions of the bourgeoisie on foreign capital and preempt further takeovers. The Watkins Report and the Gray Report also proposed some form of government intervention to deal with the issue of foreign investment. [58] Partly in response to these studies and the demands of certain factions within the capitalist class, the federal government created the CDC in 1971 to provide venture capital for small

businesses and address the high level of non-resident control. In 1974 the government also created the Foreign Investment Review Agency (now Investment Canada) to review and regulate direct foreign investment in Canada.

In the 1970s, manufacturing interests mostly in central Canada were apprehensive of the price and insecurity of oil supplies most of which were under foreign control or under the control of the regional bourgeoisie in Alberta. Manufacturing interests in central Canada were in favour of a national petroleum company, price control and regulation petroleum exports. The federal government acted in the interests of manufacturing concerns in central Canada and created PetroCanada in 1975.[59] The class interests of various fractions within the capitalist class have influenced the choice and timing of policy instrument employed by the government.

Another feature of the Canadian political economy which has contributed to the emergence of public enterprises is lack of private capital. The argument is not so much a total lack of private capital, but a lack of private capital to undertake long-term industrial ventures and infrastructural projects with low rates of return. The staples economy, according to Laux and Molot, retarded the process of private capital accumulation in Canada.

Naylor argued that Canada's lack of private capital is due to the dependency on staples which retarded domestic private capital

accumulation. He contended that the staples economy and the National Policy stimulated the growth of merchant-capital at the expense of industrial capital, since merchant capital profited from intermediating goods rather than taking risky industrial ventures. The emphasis on staples and trade, according to Naylor, retarded industrial capital accumulation. He maintains that "staples extraction, whose mode of production was typified by low ratio of fixed to circulating capital..... served to maximize the surplus appropriation by the metropole, and consequently minimized the amount of local capital formation." [60]

Leo Panitch has also suggested that there is a dearth of investment capital in Canada, but he rejected Naylor's 'merchant versus industrial capital' thesis [61]. According to Panitch, the militancy of Canadian workers, scarcity of labour and the high wages coupled with the small Canadian market retarded surplus capital accumulation in Canada. The crux of both arguments is that domestic private capital accumulation was retarded for one reason or another. The paucity of private capital has, on several occasions, prompted the creation of public enterprises to complement the private sector and sustain infrastructural projects such as canals and railways. This may explain why government reconstructed the Welland Canals, and created Trans Canada Air Lines. Perhaps the government decision to create CDC and undertake industrial ventures, such as De Havilland and Canadair Ltd, were also due to lack of private capital.



The staples economy in Canada has sometimes posed problems which require some form of government intervention. Government attempts to deal with the problems associated with Canada's dependency on staples have sometimes led to the creation of public enterprises. Canada began as a colony with the main purpose of supplying staples to the mother country. These staples involved fish, fur, lumber, wheat and non-renewable resources which were exported first to France, then to Britain and then to the United States, in return for manufactured goods and capital. In the context of competition from United States routes and the paucity of private capital, the state was particularly involved in the provision of infrastructure to facilitate the exports of these staples and the imports of manufactured goods.

State involvement in the construction of infrastructure, according to Laux and Molot, took many forms. Sometimes it involved public enterprises, such as the Rideau Canal, the Intercolonial and the National Transcontinental Railway. At other times, the state provided incentives for the private sector to undertake these projects, as in the cases of the CPR, Canadian Northern and Grand Trunk Pacific. However, if for one reason or another, the private sector is unable to sustain these infrastructural projects, as in the cases of the Canadian Northern and the Grand Trunk Pacific, then the state assumes ownership. Transportation links, in terms of railways, were particularly important for the staples economy and private

capital accumulation. The importance of the Intercolonial Railways to the staples economy and private capital accumulation was acknowledged by Hon. Colonel Gray in parliamentary debates when he noted that "Commercial reasons for building the road were much stronger than supposed . Besides the benefit of our agriculture and commerce, it could secure commercial courtesy from the United States with respect to transport through their territory which might be stopped any time." [62].

Table 7 compares the trade structure of Canada with other industrialized countries. The Table reveals that Canada's export of finished manufactured products is relatively less than all other seven countries surveyed. In 1955, finished manufactured goods accounted for only 11 percent of Canada's export trade while the average for the seven countries was about 50 percent. (There was a substantial change by 1980). Even in 1980, finished manufactured goods accounted for 32 percent of Canada's export trade, while the average for the seven countries was about 55 percent. Since Canada's exports consist mainly of non-manufactured goods, the economy is more vulnerable to price instability. According to Laux and Molot, since the staples depend on externally determined prices and demand, self-sustaining development and autonomy were hindered. This led to state intervention and sometimes the creation of public enterprises to assert control over the economy. It was also necessary for the state to intervene to deal with the booms and

TABLE 7: FINISHED MANUFACTURED GOODS AS A PROPORTION  
OF TRADE: 1929, 1955, 1980,  
(Percent of Total Trade)

|               | EXPORTS |      |      | IMPORTS |
|---------------|---------|------|------|---------|
|               | 1929    | 1955 | 1980 | 1980    |
| Japan         | 43      | 64   | 71   | 11      |
| Italy         | 41      | 47   | 61   | 28      |
| W. Germany    | 54      | 65   | 60   | 34      |
| Sweden        | 26      | 33   | 53   | 45      |
| United States | 37      | 48   | 52   | 38      |
| U. K.         | 49      | 62   | 50   | 39      |
| France        | 47      | 38   | 50   | 35      |
| Canada        | 14      | 11   | 32   | 59      |

Source: Adopted From Williams, G. Not For Export,  
Toronto, McClelland and Stewart, 1983 p.8

busts engendered by the staples economy.[63] In the 1960s, the collapse of commodity prices posed economic hardship for primary producers in Canada. A number of marketing boards, including the Canadian Dairy Commission, the National Farm Products Marketing Board and Canadian Saltfish Corporation, were created by the federal government to assist primary producers by stabilizing prices and incomes.

Dependency on staples partly retarded industrial growth in Canada. Late industrialization in Canada has also led to active state involvement, sometimes leading to the creation of public enterprises. According to Laux and Molot, one of the reasons underlying the creation of public enterprises in Canada is the "pattern of truncated industrialization which makes Canada very reliant on foreign capital and technology." [64] Niosi also shares the view that public enterprises emerged in Canada, partly, because of "the belated and dependent nature of its industrial development." [65] Canada's weak manufacturing system may be attributed to the tariff system of the National Policy. The fledgling industrial sector of the nineteenth century was inadvertently retarded by the emphasis on import substitution industrialization. Canadian manufacturers anxious to service the domestic market disregarded the international market and borrowed American capital and technology. Eventually, Canadian manufacturing became dependent on American technology and capital and uncompetitive.

The data in Table 7 also show the weakness of the manufacturing sector and its inability to compete internationally. For example in 1980, finished manufactured goods made up 59 percent of total imports in Canada, while in Japan it was only eleven percent, and in the United States it was 38 percent. As a consequence of this weakness, the government has been compelled to intervene and sometimes assume ownership of private enterprises to save them from collapse due to their inability to compete at home and abroad. Consolidated Computer was bailed out and turned into a mixed enterprise in 1976. Fisheries Products International was created as a result of a bail out by the federal and Newfoundland provincial governments. Niosi has suggested that Canada Development Corporation was created partly to support entrepreneurship in Canada because industrialization has been delayed and dependent.[66]

A discussion of the origins of public enterprises in Canada must take into account the constellation of political forces and party disposition and class interest of political parties. Most of the discussions on the emergence of public enterprises in Canada have underestimated the role of party disposition, electoral support, political alliances in parliament and the strength of the opposition. Langford and Huffman did not totally refute the influence of party ideology, but they seem to suggest that it was not an important consideration in the creation of federal public enterprises.[67] Gad Horowitz and Seymour Lipset

also seem to suggest, from a political culture approach, that all political parties in Canada are inclined to use public ownership as a policy instrument.[68] Contrary to these suggestions, Marsha Chandler has suggested that at the provincial level, class interest and the disposition of political parties may influence the use of public ownership as a policy instrument. Marsha Chandler's analysis noted that public enterprises may be established to facilitate capital accumulation, serve nationalistic objectives or redistribute political and social benefits. She suggested that parties of the 'left' are more likely to create public enterprises with redistributive objectives, while 'non-left' parties are more likely to create public enterprises which facilitate capital accumulation.[69] Baxter-Moore also suggests that "contrary to much of the conventional wisdom on Canadian public policy, it is apparent that party ideology has also had a major influence on the use of the public ownership instrument." [70]

At the federal level the major political parties are the Liberal, Progressive Conservative and New Democratic parties. Traditionally, the Conservative Party supported 'big business' and the colonial elites who negotiated Confederation.[71] The Party embraces 'business liberalism' which subscribes to the idea that government intervention in the economy should be minimized.[72]

The Liberal Party traditionally opposed the elitist

tendencies of the Conservative Party. The Liberal Party strikes a delicate balance between 'business liberalism' and 'welfare liberalism'. [73] Welfare liberalism implies a commitment to employ state intervention to address the inequalities of the market system by regulating 'big business'. The inclination of the Party to use public ownership may depend on which faction controls the Party at a point in time.

Although the Cooperative Commonwealth Federation/New Democratic Party (CCF/NDP) has not formed a government at the federal level, the electoral challenge that it poses could influence the choice of policy instrument. The CCF/NDP emerged in the 1930s, partly, as an expression of farmers' and working class discontent against 'big business' and domination by central Canada. It is a social democratic party committed to social and political equality, and a belief in public ownership as a means of achieving social democracy. [74].

Given this historical background and the class interest of the major political parties, it may be argued that party disposition and political forces also influence the choice of policy instrument at the federal level. It could be argued that the Liberal Party is more likely to use public ownership as a policy instrument than the Conservative Party, if the opportunity occurs. Although the CCF/NDP has not been in power, it may be argued that, should the party form an alliance with either of the other parties, there is a more likelihood that public ownership

would be employed as a policy instrument.

After Confederation, John A. Macdonald, the leader of the Conservative Party and a firm believer in Confederation, constructed the Intercolonial, as part of the Confederation deal. When the Liberal Party came to power between 1873 and 1878, it tried to construct the Canadian Pacific as a public enterprise, subsequently the Conservative Party sponsored it as a private enterprise. In 1896 the Liberal Party initiated the construction of the National Transcontinental railway. The Liberal Party also provided incentives for private capital to construct the Grand Trunk Pacific and the Canadian Northern. The CRBC was created by the Conservative Party in 1932. The Party's commitment to collectivism and belief in Confederation may have influenced the decision of the government to create CRBC. The Party also created the Canadian Wheat Board, partly to appease grain farmers in the west.

Except for a brief interlude between 1957 and 1963, and a briefer one in 1979-80, the Liberal Party was in power, almost all the time, from 1935 to 1984, and incidentally most of the federal government corporations were created during this period. Perhaps, the Liberal Party's opposition to 'big business' may have influenced the decision of the federal government to create TransCanada Airlines in 1937. Stevenson has suggested that public ownership of TCA may have been influenced by the Liberal Party's resentment of CPR's political and economic influence.[75]



The Liberal Party's commitment to welfare liberalism may explain the use of public ownership as a policy instrument after World War II to assist 'small business' in particular and the capitalist class in general. Some of these public enterprises included the Federal Business Development Bank, Export Development Corporation, CDC and PetroCanada. In the case of PetroCanada, the idea of a national petroleum company was conceived under a Liberal government supported by the NDP in 1973, and it was established in 1975 by the Liberal government. Other regulatory instruments, such as the Foreign Investment Review Agency (now Investment Canada) and the National Energy Program, were introduced by the Liberal Party.

The hypothesis that at the federal level the Liberal Party is more likely to establish public enterprises than the Conservative Party is difficult to test. However, the opposition demonstrated by the Conservative Party towards the creation of some public enterprises, including CDC and PetroCanada, may suggest that the Conservative Party is less in favour of public enterprises.[76] Table 8 shows the results of Gallup polls conducted in 1973 on whether the government should nationalize energy resources. If we presume that the electorates vote for parties that share their aspirations, it could be argued that next to the NDP, the Liberal Party is more likely to establish public enterprises. While 43 percent of the respondents who vote for the Conservative Party believe that energy resources should be under private ownership,

only 38 percent of the Liberal party respondents thought the same way too. (The difference between the Progressive Conservative and Liberal parties, with respect to the use of public enterprises, is not statistically significant). When the Conservative Party came to power in 1979, it declared its intention to privatize some public enterprises, including PetroCanada, De Havilland, Eldorado Ltd , Canadair Ltd and Northern Transportation Company. However, the Party was defeated before it had had the time to implement its privatization program.[77] When the Liberal Party returned to power in 1980, it shelved the privatization program and even introduced the National Energy Program to strengthened PetroCanada's Canadianization program. When the Conservative Party came to power again in 1984, it signed the Western Accord, scrapped the National Energy Program and deregulated the petroleum industry. Moreover the government has privatized some public enterprises, including Canadair Ltd, de Havilland Ltd, Air Canada and Canada Development Corporation.

The reaction of both parties to the use of public ownership and privatization, especially since the 1970s may support the hypothesis that even though both parties may use public ownership when the opportunity occurs, the Liberal Party is far more likely to use public ownership than the Conservative Party.

Another factor which has motivated the creation of public enterprises is the crisis engendered by the world wars and the

TABLE 8: PUBLIC OPINION ON THE NATIONALIZATION OF ENERGY  
RESOURCES

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CANADIANS WERE ASKED "SHOULD THE CANADIAN GOVERNMENT HAVE  
NATIONALIZED OUR ENERGY RESOURCES, SUCH AS OIL AND GAS, OR DO YOU  
THINK PRIVATE ENTERPRISE SHOULD STILL CONTROL THEM AS AT PRESENT?

| PARTY          | NATIONALIZE<br>RESOURCES | PRIVATE<br>ENTERPRISE | QUALIFIED | CAN'T SAY |
|----------------|--------------------------|-----------------------|-----------|-----------|
| Liberal Voters | 47 %                     | 38 %                  | 8 %       | 7 %       |
| PC Voters      | 45 %                     | 43 %                  | 2 %       | 10 %      |
| NDP Voters     | 69 %                     | 22 %                  | 3 %       | 6 %       |

SOURCE: The Gallup Report, Toronto, Canadian  
Institute of Public Opinion May 16, 1973

great depression. The first and second world wars posed serious problems to the predominately laissez-faire economies of north America. In both the United States and Canada, a number of policy instruments, including public ownership, were used to reorient the economies to meet the war needs.

Writing on World War II crown corporations in Canada, Borins noted that they were motivated by considerations of national security, secrecy and security of supply.[78] There were other factors besides these motives. Perhaps private capital, which is profit-motivated, was unwilling to undertake production to meet the war needs because of the uncertainty and risk involved in wartime production. The governments in the United States and Canada intervened to socialize the cost of production to meet the war needs and take over private firms which could not deal with the disruption that accompanied the war. The objectives of the governments in both countries may have been motivated by the need to secure and maintain the survival of the capitalist system.

Public ownership was used more frequently in Canada than the United States during the first world war. The United States entered the war in 1917, and the War Industries Board was created in 1918; thus, apart from government control of railways, the War Industries Board did not have enough time to assume ownership of enterprises. However, five public enterprises were created in the United States: they included - Emergency Fleet Corporation of United States Shipping Board, The U.S. Grain Corporation and

Sugar Equalization Board of the Food Administration, War Finance Corporation, The U.S. Spruce Production Corporation and the Russian Bureau Inc.[79] In Canada, the Imperial Munitions Board was established in 1915, and besides other policy instruments, seven factories were established.[80]

World War II increased the role of the state in both the United States and Canada. In Canada, under the War Measures Act the federal government established a number of crown corporations, including Defence Communications Ltd, Machinery Service Ltd. and Polymer Corporation, as part of a larger program to reorient the economy towards the war efforts and to complement the private sector. The war time crown corporations in Canada were partly motivated by the extenuating circumstances of the war. After the war, C.D.Howe observed that "the government has no intention of going into business unnecessarily. Occasions have arisen in the past where it was important and, I suggest imperative, that the government go into business." [81] After the war, the United States dismantled some of the public enterprises and others were folded into regular departments. Like the United States, Canada privatized some of the wartime crown corporations after the war, but others were retained.

The 1930 Depression adversely affected the economies of the United States and Canada and threatened the fabric of the capitalist system as a whole. There was high unemployment, market disruption, underutilization of productive capacities and

shortage of commodities; the market economy failed to meet the needs of the society. The legitimacy of the capitalist system was in doubt. To secure the legitimacy of the system, interventionist policies, sometimes involving public ownership, were used to assist disadvantaged groups and to restore market stability in the United States and Canada.

In the United States, the government dealt with the great depression by using public ownership and other policy instruments. The Reconstruction Finance Corporation was created in 1932 to provide credit facilities to disadvantaged groups. Roosevelt's New Deal Program was also a response to the depression. Under the New Deal a number of governing instruments including public enterprises, such as Tennessee Valley Authority, were used to address the economic effects of the depression. Other financial institutions including the Federal Deposit Insurance Corporation, Export-Import Bank of Washington and Production Credit Corporation were established to extend credit facilities.[82]. Fainsod, Gordon and Palamountain noted that "in the United States, with the pressing problems of the Great Depression, the federal government created new public enterprises almost indiscriminately." [83]

In Canada, 'Bennett's New Deal' introduced a number of social programs to ameliorate the effects of the great depression. In addition to these programs, the government created the Canadian Wheat Board in 1935 in response to demands by farmers' movement

on the federal government. Government intervention during the two World Wars and the great depression were intended to socialize the risk involved in production as well as meet the legitimization and accumulation function of the state.

The use of public ownership declined considerably after the second world war in the United States. However, a few public enterprises such as Tennessee Valley Authority and the Federal Deposit Insurance Corporation were retained. Writing on public enterprises in the United States after the war, Albert Abel notes that "the decline in the use of public corporations by the federal government has been matched by an attempt to achieve similar ends by using private corporations." [84] Thus, the United States switched to using other policy instruments

In Canada, public enterprises were used to stimulate post war economic reconstruction. Government financial corporations, including the Federal Business Development Bank, the Export Development Bank and the Canada Mortgage and Housing Corporation, were established to stimulate post war economic reconstruction. This may reflect the weakness of the private sector and its inability to deal with the post war reconstruction. For instance, while the synthetic rubber plants in the United States were sold off to the private sector, Polymer was retained by the federal government, in part because of the lack of private investors to assume ownership. C.D. Howe noted in 1946 that "we would be glad to sell the Polymer Corporation to private industry, if private

industry would buy it." [85]

Postwar changes in the international political economy affected Canada and the United States differently. The role of the United States in the post war international political economic order was considerably enhanced. But two important postwar developments:- increased multinationalization of the world economy, and increased international competition,- significantly affected the Canadian political economy. The effects of these developments on Canada were three fold: first, increased international and domestic competition for indigenous manufacturers; secondly, the growth of foreign investment, especially American investment; and, lastly, trade dependence and a branch plant economy with a truncated manufacturing sector. These developments were believed to require some form of government intervention. A complex blend of governing instruments, including public ownership was employed to address these developments.

World War II stimulated the growth of American companies, so after the war there was a large amount of surplus capital in the United States in search of investment opportunities. With the disruption of the European economies, American companies invested most of this capital in Canada. Through this investment, American firms took over some existing Canadian firms and established new branch plants. Table 9 shows the level of foreign direct investment in Canada from 1945 to 1975. United States direct



TABLE 9: FOREIGN DIRECT INVESTMENT IN CANADA

Book value in millions of dollars

|              | 1945  | 1955  | 1975   |
|--------------|-------|-------|--------|
| U.K.         | 348   | 890   | 3,717  |
| Other Europe | 61*   | 325*  | 3,207  |
| U.S.A.       | 2,304 | 6,153 | 32,194 |

\* Includes a small amount of non-European Investment

Source: Foreign Investment Review, Spring, 1979 p.12

investment increased from \$2.3 billion in 1945 to about \$32.2 billion in 1975. An increasing share of the Canadian economy coming under foreign control. Some sectors of the economy, such as the manufacturing sector, was almost totally under foreign control. In 1963 American capital controlled 43.3 percent of the manufacturing sector in Canada. In the early 1970s Canadians controlled only 34 percent of the manufacturing sector while Americans controlled 47 percent.[86] Table 10 shows the levels of non-resident control in selected industries in the resource sector between 1948 and 1975. In 1975, 74 percent of the petroleum and gas industry was controlled by non-residents. In the mining and smelting sector non-resident control increased from 40 percent in 1948 to 60 percent in 1975. This apparent high level of non-resident control was compounded by the activities of American subsidiaries. United States parent companies forced their subsidiaries in Canada to comply with American laws. For example, American laws, such as Trading with the Enemy Act, restricted the trading activities of American branch plants in Canada.[87]

In the 1960s, the issue of foreign control became an issue of national concern and the state sought to ensure a significant Canadian presence in certain sectors of the economy. The reaction of the federal government to the loss of political sovereignty and economic dependence sometimes led to the creation of public enterprises. Laux and Molot has suggested that the high level of

TABLE 10: Non-resident Control of Selected Resource Industries  
1948-75 (per cent)

| Industry            | 1948 | 1970 | 1975 |
|---------------------|------|------|------|
| Mining and smelting | 40   | 70   | 60   |
| Petroleum and gas   | n/a  | 76   | 74   |
| Pulp paper          | n/a  | 63   | 45   |

Source: Adopted from Phillips, P. & Watson, S. 'From Mobilization to Continentalism: The Canadian Economy in the Post-Depression Period', in Cross, M.S. & Kealey G.S. eds. Modern Canada 1930-1980's, Toronto, McClelland and Stewart, 1984 p.40

non-resident control may have led to the creation of the CDC.[88]

Other policy instruments were designed to deal with the problem, for example the Foreign Investment Review Agency (now Investment Canada) was intended to regulate non-resident investment in Canada. In 1971, Edgar Benson, the Minister of Finance, noted that "the CDC should be in a position to play an important catalytic role in making such constructive changes ...and reducing the risks of an undesirable degree of foreign control." [89] The CDC was also intended to enhance the ability of Canadian-controlled firms to withstand competition domestically and internationally. In the petroleum industry the government could not address the high degree of non-resident control with existing regulatory instruments, so a national oil company was created in 1975. The Minister of Energy, Mines and Resources, Donald MacDonald, noted that Petro-Canada was intended "to increase the Canadian presence in this sector which is of critical importance in assuring future energy supplies." [90] The government considered Petro-Canada as one of the many policy instruments designed to address the high degree of non-resident control.

In 1969, the federal government established Telesat Canada; a satellite communication network, as a mixed enterprise. Telesat Canada was intended to be an instrument of integration with technological potential which could be harnessed for the whole of Canada and preempt American domination. Laux and Molot note that

Telesat was created "in the tradition of 'defensive expansionism' - satellite communication was deemed critical to national integration and preemptive government encouragement was deemed necessary to avoid U.S.A. domination." [91]

Post war globalization of the world economy posed problems to national economies and political sovereignty all over the world. Canada, like the rest of the world, is part of a global competitive market where state intervention and public ownership is common to all participants. However, because of Canada's trade structure, weak manufacturing sector and foreign control, public ownership was used more frequently than in the United States.

Increased globalization compels multinational companies operating in Canada to restructure production, sometimes, by relocating away from Canada. When they do relocate, it is not easy to find indigenous capital to replace them. In the resource sector, Dominion Steel Company, a British subsidiary which operated coal mines in Cape Breton, declared its intention to withdraw operations in the mid 1960s. The Nova Scotia and federal governments could not interest the private sector in taking over, so the federal government assumed ownership of the mines and created Cape Breton Development Corporation.

In the aerospace industry, which is largely controlled by non-resident capital, there was an attempt by these multinationals to relocate operations in the mid 1970s. Of particular interest, were the cases of Canadair Ltd and De

Havilland, owned by General Dynamics and Hawker-Siddeley respectively. Both companies declared their intention to relocate and withdraw operations in the mid 1970s. Government attempts to interest the private sector to assume ownership failed so the government purchased De Havilland and Canadair in 1974 and 1975 respectively.

In Canada, public enterprises such as the Export Development Corporation and Canada Commercial Corporation, established after World War II have been reorganized in the 1970s to promote the export of high technology and capital goods. The Foreign Investment Guarantee Division of the Export Development Corporation guarantees foreign investment by Canadian firms. These policy instruments were intended to enhance the international competitiveness of the Canadian economy in the 1970s

Regional disparity is another factor which has motivated the creation of public corporations in Canada. According to Niosi, because of the economic dominance of Ontario, most of the provinces undertake policies to "create crown corporations to stem the flow of savings, processing activities and centres of control towards Ontario." [92] Niosi noted that Sidbec (1964) and Sysco (1967), in Quebec and Nova Scotia respectively, were intended to break Ontario's domination of the steel industry. He observed that "the development of provincial crown corporations have been part of the postwar attempt at self-defence." [93] Laux

Table 11: Provincial Gross Domestic Product at Market Prices Per  
Person, By Province 1971 and 1981  
(National Average, Canada =100)

|                      | 1971  | 1981  |
|----------------------|-------|-------|
| Newfoundland         | 56.2  | 52.0  |
| Prince Edward Island | 52.3  | 50.5  |
| Nova Scotia          | 67.9  | 61.3  |
| New Brunswick        | 63.7  | 63.1  |
| Quebec               | 88.9  | 86.0  |
| Ontario              | 117.3 | 106.5 |
| Manitoba             | 90.7  | 88.1  |
| Saskatchewan         | 86.9  | 108.8 |
| Alberta              | 110.8 | 146.0 |
| British Columbia     | 106.8 | 109.4 |

Source: Compiled From Statistics Canada, Provincial  
Economic Accounts, Catalogue 13-213 1972,1982

and Molot have also suggested that uneven regional development and the desire of the provincial government to address regional disparity and promote economic development have sometimes led to the creation of public enterprises.[94]

Table 11 shows the levels of regional disparity in Canada using the provincial per capita GDP. The Atlantic provinces, especially Prince Edward Island and Newfoundland, have the lowest GDP per person. In 1981 their per capita GDP were, respectively, 50.5 percent and 52 percent of the national average. In the prairie provinces though Manitoba and Saskatchewan have relatively low GDP per person at 88.1 percent and 108.8 percent respectively, they fared better than the Atlantic provinces and Quebec in 1981. Regional disparity has been a source of concern to the federal and provincial governments, and various policy instruments, including public ownership, have been designed to address the problem. However, it must be noted that regional disparity has more often led to the creation of provincial public corporations than federal public corporations. In the inter-war years the federal government created the Farm Credit Corporation and the Canada Wheat Board in 1927 and 1935 respectively to assist western grain farmers and address regional disparity. Cape Breton Development Corporation and Enterprise Cape Breton are crown corporations created to stimulate economic development in Nova Scotia. DEVCO was intended to sustain the coal industry which was the mainstay of the Cape Breton economy, while



Enterprise Cape Breton was intended to explore the possibilities of diversifying the economy away from coal mining to sustain economic development and create job opportunities. The federal government invested in Fisheries Products International mainly to sustain the fishing industry in the Atlantic provinces to preempt further economic decline.

The operations of other public corporations have also been shaped by regional disparity. Petro-Canada's exploration in the Atlantic provinces and the Arctic would, to a certain extent, bridge the gap between the oil rich west and Atlantic provinces and stimulate the growth of a petroleum industry in the east. The CNR has also maintained uneconomic routes in the Prairie provinces and eastern Canada as part of a larger program to address regional disparities.

### CONCLUSIONS

This has been an overview of the political culture and political economy approaches to the explanation of the origins of federal public enterprises in general. The political culture approach argues that due to the tory element in Canadian ideology, the statist tradition and the commitment to organic unity and collectivism, the Canadian polity is predisposed to the use of public ownership as a policy instrument. The inherent lack of entrepreneurship, has also been advanced, as one of the reasons underlying the creation of public enterprises in Canada.

Canada, according to Hardin, is a reflection of three sets of contradictions. These contradictions have stimulated nationalist sentiments which, in turn, have been channelled into the creation of public enterprises with nation-building objectives.

The political economy approach suggests that public enterprises have been motivated by the need for the state to fulfill the legitimization and accumulation function. Public enterprises are intended to serve the interest of capitalism as a whole, but sometimes they serve the interests of specific classes (or fractions of classes) depending on the constellation of political forces. Party ideology and political alliances have also influenced the emergence of public enterprises in Canada.

Lack of private capital to undertake high-risk industrial ventures and infrastructural projects with low rates of return has also motivated the creation of public enterprises.

In times of crisis, such as the World Wars and the Great Depression, when private capital is unable to deal with the crisis, the state intervenes, sometimes by creating public enterprises. Regional disparity is another feature of the Canadian political economy, which has motivated the creation of public enterprises at the provincial and federal level.

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## CHAPTER FOUR

### THE ORIGINS OF SELECTED PUBLIC ENTERPRISES

The focus of this chapter is to examine how the Canadian political economy and the political culture have influenced the origins of selected federal government enterprises and former public corporations. The selected public corporations include Canadian National Railways, Canadian Radio Broadcasting and Petro-Canada (partially privatized), and the former public corporations include De Havilland, Canadair Ltd., Polymer Ltd. and Canada Development Corporation. Although the selection may be limited, it provides a good overview of federal government enterprises. The range of selected public corporations spans from 1919 to 1975, and they include corporations in the transportation, communication, manufacturing and resource sectors of the economy. A mixed enterprise and a wartime public corporation are also included to broaden the range of the selection. This chapter is intended to determine the appropriate model for the explanation of the origins of federal public corporations in Canada.

#### CANADIAN NATIONAL RAILWAYS

Canadian National Railways was created after World War I by the nationalization of Canadian Northern, Grand Trunk, and Grand Trunk Pacific, and the incorporation of all other federally-owned railway systems. CN is one of the biggest public corporations in

Canada with assets worth \$7 billion in 1990.[1] The federal government was forced by circumstances to assume ownership of the CN. After Confederation, the federal government was determined to integrate the disparate regions together to promote economic development and preempt the spill-over of American interest.

The opening of the west and the fledgling wheat economy made it particularly necessary for the construction of railroads to facilitate the transportation of the new staples to central Canada for export. The government offered a package of incentives involving land grants and loan guarantees to stimulate private sector participation in the construction of the railway lines. This led to the construction of the Canadian Pacific Railway (hereafter CPR).

At the turn of the century, Canadian Northern and Grand Trunk began to extend their railroads to establish connections between their eastern and western lines. These developments were largely financed by British portfolio investment, guaranteed by the federal government. The government also encouraged the construction of these extension lines. In 1908, the government guaranteed bonds for the Canadian Northern Railways at the rate of \$13,000 per mile with respect to the 609 miles of railway lines in the prairie provinces. In 1912 and 1916, the Canadian Northern requested government assistance again.[2]

The Grand Trunk Pacific also requested assistance in the form of a loan of \$10 million in 1909. In 1914, the Grand Trunk

Pacific asked the government to guarantee bonds worth \$16 million. In 1916 the management requested, once again, a loan of \$6 million.[3] It became apparent that railway construction in Canada could not be completed without government assistance.

Debt-ridden and over-built the railway corporations could not survive the economic disruption that accompanied World War I. All the railway corporations, except the Canadian Pacific Railway, were on the verge of bankruptcy. There were fears in parliament that the railway companies were a drain on government coffers, and it was proposed that the government must take steps to resolve permanently the problems associated with railway construction and operation in Canada. So in 1916, the government established a Royal Commission to study the railway situation in Canada and make recommendation to the government. The members of the Commission were Mr. A. H. Smith, Chairman of the Commission and President of the New York Central Railroad, Sir Henry Drayton, Chairman of the Board of Railway Commissioners of Canada, and Mr. Acworth, a financial and railway expert from England. The members of the Commission had different ideas as to how the government should resolve the railway problem in Canada. The majority report signed by Drayton and Acworth noted that

"If the two companies went into receivership, we can not doubt that investors outside of Canada would believe, however erroneously, that

the Dominion Government had treated them badly....We therefore consider that Canada should assume the responsibility of seeing that the interest of these securities are met."[4]

Above all else, the Drayton-Acworth report recommended government ownership when it proposed that a Dominion Railway Company be incorporated under an Act of Parliament and "that the ownership of the Canadian Northern Railways, Grand Trunk and Grand Trunk Pacific be vested in that company." The minority report signed by Mr. A.H. Smith noted that

"I see no safe alternative but the government shall continue, with discrimination, and resort to all safeguards and under a policy of proper regulation ... to aid the necessitous railroads.... until such time, which I hope and believe, will not be far distant, when they will become self-supporting and the problem will be solved"[5]

The members of the Commission differed on the solution to the railway problem in Canada. Whatever their differences, it is interesting to note that the Canadian member of the Commission endorsed public ownership, while the American member rejected public ownership. This is probably a reflection of the statist tradition of the Canadian elites and their disposition towards public ownership.

In 1917, when the Conservative government decided to act on the recommendations of the Drayton-Acworth Report by assuming ownership of the Canadian Northern Railways, there were some objections in the House of Commons. However, the main objection was not public ownership of the railway system per se, but the cost of such ownership and how to insulate a government owned railway system from political patronage. Senator Bostock, a member of the opposition noted that "the Bill placed the government in a curious position of arbitrating to discover the value of the Canadian Northern stock." [6]. Speaking on the Canadian Northern in 1918, Hon. Wilfrid Laurier, the leader of the opposition noted that "when the government proposed to acquire the road, I did not object because I thought the property was a good one, the only question was as to the terms under which it should be acquired." [7]

It could be inferred, from the discussions arising from the government decision to assume ownership of the railway system, that Canadian policy makers were favourably disposed to public ownership due to the inherent tradition of statism. However, government assistance and ownership of railway lines is not uniquely a Canadian feature. In the United States, the government had provided \$90 million of assistance to railway construction and operation by April 1918. [8] During World War I, the United States government also temporarily assumed control of the railway system. Thus, government ownership and assistance to railway

construction, during that time, was not uniquely a Canadian feature, and cannot be attributed solely to the Canadian political culture.

Nevertheless, Kent Weaver has suggested that ideological differences may explain the different reaction of the Canadian and American government to public ownership of railways.[9] In the United States, while the nationalization of railways was discontinued after World War I and a number of railways were allowed to go into receivership, in Canada the government continued with the nationalization of Grand Trunk after the War and did not allow any of the railway corporations to go into receivership.

Other aspects of the Canadian political culture, especially the contradiction between the centre and the regions may have influenced the decision of the government to nationalize CN. Stevenson has suggested that one of the reasons for the nationalization of CN was "to provide railway services to such areas, such as northern Manitoba and north western Quebec, that have been neglected by private enterprise." [10] In the west, the near monopoly power of the CPR and its unwillingness to develop branch lines to serve some farming areas was alienating farmers in the west. So nationalization may have been influenced by the need to appease all these regional interests and bring them closer together by sustaining railway linkages between them. As Stevenson has suggested, nationalization was a means "of



fulfilling political and constitutional obligations."[11]

In addition to these aspects of the Canadian political culture, other political and economic factors, such as the war situation, also influenced the decision of the government. In 1918, 'The Globe' newspaper reported that "only the transcending importance of the war enabled the government to obtain the passage of the Canadian Northern legislation." [12] Other than political culture, the federal government was forced by circumstances to assume ownership of the Canadian Northern. In 1918, the Prime Minister, Sir Robert Borden noted that

"the conditions induced by the war; the very greatly increased cost of fuel, material and labour;... the inability to market securities... made it impossible for the Canadian Northern Railway Company to complete its undertakings....so when the situation had to be considered by the government in 1917 we reached the conclusion that the road should be sustained, that further aid should be given, but only upon condition of acquiring all the remaining capital stock." [13]

Thus the economic decline that accompanied World War I made it difficult for the Canadian Northern and the Grand Trunk to sustain operations. The war was disruptive to private capital accumulation and government ownership was intended to, partly, rectify the situation. Speaking on the Canadian Northern in 1918, Sir Wilfrid Laurier noted that "I firmly believe that, but for the war they would have brought the road to a satisfactory

completion." [14]

From the political economy perspective, it could be inferred that the decline in immigration that accompanied World War I made it particularly difficult for the private sector to sustain the operation and construction of a transcontinental railway in Canada.

In Canada the railway companies have had to rely heavily on British portfolio investment. The loans were contracted with government guarantees, so the government could not allow the railway companies to collapse or go into receivership. This could have jeopardized Canada's credit worthiness in the London financial market. Stevenson shares the view that Canada's credit rating would have suffered from the bankruptcy of either CN or Grand Trunk. [15] The Economic Council of Canada also noted that "the collapse of the major private railway firms would ...jeopardize Canada's credit rating in the foreign capital market." [16] The Finance Minister, Sir Thomas White, noted in 1918 that the Canadian Northern should be sustained to "render the maximum of public service in the all-important fields of transportation, and that the credit of Canada, its provinces, and its business enterprises may be protected and maintained in the investment markets of the world." [17]. So the financial credibility of Canada, as a whole, was an important issue in the decision of the government to assume ownership. In this respect, nationalization could be seen as a policy directive to serve the

interest of the capitalist system as a whole, and in particular the fraction of the capitalist class which depend on the British portfolio investment.

The domestic political situation, especially the formation of a Union Government from 1917 to 1921, also influenced the decision of the federal government to nationalize Canadian Northern. The Union Government of Conservatives and anglophone Liberals increased representation from western Canada in the cabinet. Articulating the interests of prairie farmers, the western representatives were in favour of public ownership to curtail the near monopoly power of the CPR in the west. The composition of the Union Government influenced the decision of the government to nationalize Canadian Northern.[18]

The class interests of other fractions of the capitalist class were met by the nationalization of CN. According to Kent Weaver "in creating the CNR, federal decisionmakers carefully protected the fundamental interests of all groups." [19] Nationalization guaranteed railway services at competitive prices for shippers. Private interests in Canadian Northern and Grand Trunk recovered some of their investment. Perhaps, to appease Montreal banking interests, the CPR was not nationalized. In the west, the interests of farmers' groups, such as Saskatchewan Grain Association, were met by nationalization. Thus, public ownership provided an atmosphere conducive for private capital accumulation and served the interests of various fractions within

the capitalist class and independent commodity producers in the west.

The need to sustain private capital accumulation was taken into consideration when Sir Thomas White, the Finance Minister noted that, should the railway system collapse, "then the grain and other agriculture commodities, and manufactured products of Canada cannot go forward to their destinations and the whole trade of Canada, in every part of the country is immediately affected." [20]. Thus public ownership was intended to stimulate economic growth and private capital accumulation. Once incorporated as a public corporation, CN became an instrument of national integration and economic development. Its operations were influenced by both the Canadian political culture and political economy. The nationalization of the CN was influenced by the Canadian political economy and political culture. As Stevenson has suggested, the nationalization of CN "cannot be attributed to a single decision or any single motive." [21] The statist tradition and the ideological orientation of the Canadian political culture, the contradiction between the centre and the regions and the commitment to organic unity may have influenced the decision of the federal government to nationalize Canadian Northern.

The nature of the domestic political economy, especially the effects of the war on railway construction, the alignment of political forces, the interests of the capitalist class and

independent commodity producers as well as the capitalist system as a whole were taken into consideration in the decision to nationalize Canadian Northern. Perhaps the political and economic conditions were a stronger motivation in the timing and creation of CN, since the United States government was also involved in the operations of railways at the time. Public ownership of the Canadian Northern was motivated by the political and economy conditions compounded by the political culture.

#### CANADIAN BROADCASTING CORPORATION

The nature of the Canadian political economy and the political culture influenced the creation of the Canadian Radio Broadcasting Commission (later Canadian Broadcasting Corporation), especially the imminent domination by American radio networks, the lack of willing private investors and the need to foster national identity and unity

To provide an explanation for the origins of the CBC, it is important to understand the circumstances and events leading to its creation in 1932. In the 1920s, radio transmission in Canada was mainly a commercial venture undertaken by the private sector. Except for the radio stations owned by Canadian National Railways, most privately-owned radio stations were provincially based and did not serve the whole nation. Due to long distances and the lack of powerful transmitters, private radio stations could not provide broadcasting on a national basis.

Private radio ventures were mostly urban based and their programs were dominated by commercials and advertisements to enable them pay for their operations. Because the radio stations relied on advertisements for revenue, they tended to concentrate in urban centres where there were potentials for revenues from advertisements, consequently the rural population were not adequately served by these radio stations.

Right from the 1920s, when radio broadcasting began in North America, there has been conflict between the United States and Canada on the allocation of channels. The United States wanted channels to be allocated on a population basis. Moreover because American networks, such as NBC and CBS, used more powerful transmitters than Canadian broadcasters they interfered with the channels allocated to Canada. William Malone noted that "interference from the United States stations ... coupled with low power used by Canadian stations impeded the reception of Canadian broadcasters." [22] In addition to these interferences, American networks were buying into Canadian stations . In 1929 NBC established a permanent service in Toronto and by 1932 American networks had five affiliates in Montreal. [23] Frank Foster acknowledged the threat of American domination when he remarked that "American broadcasters were laying claim to Canada, by network connections to Canadian stations and by direct broadcasts, as an area for them to serve." [24]

In the 1920s religious organizations such as the Jehovah's

Witnesses and the National Bible Students' Association, began to use radio as a means of preaching the gospel. In 1928 the federal government refused to renew the licence of the National Bible Students' Association because some listeners considered its religious broadcast as offensive. This sparked a controversy on religious freedom and the right of the government to censor radio broadcasting. In response to all of these problems the government appointed a Royal Commission on Radio Broadcasting (hereafter Aird Commission) in 1928 to "examine into the broadcasting situation in the Dominion of Canada, and make recommendation to the government as to the future administration, management, control and financing thereof." [25].

The Commission was under the Chairmanship of Sir John Aird, the President of Canadian Bank of Commerce. In the course of studying the radio broadcasting situation in the country, the Commission noted that

"The lack of revenue has.... tended more and more to force too much advertising upon the listeners. It also appears to result in the crowding of stations into urban centres and the consequent duplication of service in such places leaving other larger populated areas ineffectively served...the majority of programs heard are from sources outside Canada... the continued reception of these has a tendency to mold the minds of the young people into ideals and opinions that are not Canadian." [26]

The statement reflected precisely the radio broadcasting situation in Canada in the late 1920s, characterized by fragmented regional based radio stations, urban orientation, commercial emphasis, and a high degree of foreign content. To address these problems the Commission recommended that

"As our foremost consideration, we have concentrated our attention on the broad consideration of the interests of the listening public and of the nation... we are impelled to the conclusion that these interests can be adequately served only by some form of public ownership operation and control behind which is the national power and the prestige of the whole public of the Dominion of Canada." [27]

It is interesting to note that the Chairman of the Commission and the President of Canadian Bank of Commerce, presumably an advocate of private enterprise, would endorse public ownership of radio broadcasting in Canada with the statement that "only some form of public ownership" would ensure an effective radio service in Canada. This probably reflects the Canadian elite disposition to public ownership.

Before the recommendations of the Commission could be implemented, the Liberal government was replaced by a Conservative government which was preoccupied by the depression.



However, the subject of radio broadcasting was revived again when Quebec and New Brunswick challenged the jurisdiction of the federal government to regulate inter-provincial radio broadcast. In 1932, the Judicial Committee of the Privy Council ruled that the federal government has jurisdiction over inter-provincial radio broadcast.[28] After the ruling, the government established a Special Parliamentary Committee to consider the recommendation of the Aird Commission

The uncertainty surrounding private radio stations in the light of the recommendations of the Aird Commission coupled with government licensing policy stifled the development of private radio stations. Foster is of the view that private stations were willing to sell to the government because broadcasting was not a profitable venture.[29] The Ontario Radio League and CPR were against the nationalization of radio broadcasting. Mr Beatty, the President of CPR suggested a broadcasting corporation operated by CN and CPR.[30]. The case for nationalization was advanced by the Canadian Radio League under the leadership of Graham Spry. According to Spry "the job of the Canadian Radio League was to see that Mr. Bennett would give expression to the demand of every Canadian for a decent broadcasting system, that was Canadian in large part." [31]

In 1932, the government finally decided to adopt the recommendations of the Aird Commission by nationalizing radio broadcasting. When the Prime Minister Hon R.B. Bennett

introduced the Canadian Radio Broadcasting Act, he stated that

"this country must be assured of complete Canadian control of broadcasting from Canadian sources, free from foreign interference... Without such control... it can never be the agency by which national consciousness may be fostered and national unity still further strengthened... No other system of radio broadcasting can meet these national requirements." [32]

In spite of the fact that the Prime Minister was once a solicitor for CPR and a personal friend of the President of CPR, he opted for public ownership. Perhaps, this reflects the statist tradition of the Canadian political culture and elite disposition to use public ownership if the opportunity occurs. Moreover, the recommendations of the Aird Commission and the Canadian Radio Broadcasting Act were generally accepted by all the parties in the House of Commons. [33]

The contradiction between the centre and the regions, which is another facet of the Canadian political culture, may have influenced the decision of the government to create CBRC. While Quebec and New Brunswick were challenging the federal government's jurisdiction, private radio stations were also regionally-based reinforcing the contradiction between the regions and the centre. This state of affairs was compounded by the threat of American domination which fuelled nationalist

sentiments. Public ownership of radio broadcasting was intended to foster national unity and identity as well as preempt American domination. 'The Globe' noted that "imperial as well as national considerations have impelled the government to nationalize radio in Canada." [34]. The creation of the CBC very much reflected key facets of the Canadian political culture : elite disposition towards public ownership; the need to foster national unity between the disparate regions; and to promote national consciousness and stem American domination.

From a political economy perspective, it is plausible to suggest that public ownership of radio broadcasting was intended to fulfill the legitimization function of the state and to stem American domination. After World War I, the Canadian economy increasingly relied on American investment and technology, but the state was determined to insulate certain sectors of the economy from American domination. Radio transmission was considered a vital instrument for national unity which must be controlled by Canadians. The Prime Minister noted this fact when he remarked that "Canadian broadcasting must be free from foreign interference". Thus radio broadcasting was considered strategic to the nation and foreign ownership should be avoided at all cost.

In the late 1920s and early 1930s, when the government was studying the broadcasting situation, political protest movements and regionally-based political parties, such as the Maritimes

Rights Movement, United Farmers of Alberta and the Progressives were emerging with strongholds in the regions. Perhaps nationalization of radio broadcasting was necessary to prevent these regional political parties and protest movements from using the medium of radio to advance regional and sectional political interests, especially during the depression when regional discontent was rife. Because radio broadcasting was regionally fragmented, it had already become a medium for the expression of sectional interests and diverse religious ideas, some of which were undermining the legitimacy of the state.[35] The need for some form of social harmony to reinforce the legitimacy of the system may have influenced the decision of the federal government to create CRBC. The objective of legitimization was above the interests of any fraction within the capitalist class. Perhaps, this may explain the decision of the federal government to override the opposition of certain private interests to the nationalization of radio broadcasting.

The creation of the CRBC could not be attributed to the lack of entrepreneurship advanced by the political culture approach. Before the creation of the CRBC, the private sector was providing radio services in Canada. In fact, the Aird Commission commended the private sector "for its effort to provide entertainment for the benefit of the people with no direct return of revenue." [36] However, the structure and size of the Canadian market did not allow for the growth of a national radio station. Private radio

broadcasting in the United States prospered because the size of the market was propitious to private radio transmission.

Following its establishment the CRBC took over CN Railways' broadcasting quarters in Halifax and Montreal. The CRBC was intended to regulate radio transmission and transmit radio signals throughout the Country. The 1932 Annual Report of the CBRC noted that, with its operations, "the geographical barrier of distance is being surmounted and in this way there tends to be a disappearance of parochialism and the development of a vigorous national perspective." [37] The CRBC was hamstrung by government control. Limited financial resources did not allow the Commission to establish networks that would reach every part of Canada. According to Foster, there were complaints from western Canada that the Commission did not have enough programs to explain Canada to the diverse peoples of the west. [38] The Minister of Marine also retained the responsibility for the issuance of licences.

The CBRC increasingly came under the influence of the government in power. In 1935, the Commission was involved in a political propaganda program for the Conservative Party known as the 'Sage broadcasts'. When the Liberal Party came into power in 1935, it repealed the CRBC Act and established the Canadian Broadcasting Corporation. CBC was intended to operate the only radio network in the country, regulate radio broadcast and make recommendations to the government regarding radio licences.

As a public enterprise, CBC was intended to transmit radio signals nation-wide in English and French, as well as produce Canadian programs to foster national unity and identity. In 1952 the CBC began television transmission, and since then, the CBC has been featuring programs with a high level of Canadian content. The 1982 Annual Report noted that CBC television programs carry 70% Canadian content and even higher levels for radio. The CBC also runs both English and French radio and television networks which serve about 90% of the Canadian public.[39] The CBC has become a medium for the expression of Canadian cultural identity.

A Gallup poll conducted by the Canadian Institute of Public Opinion in 1991 revealed that 77 percent of Canadians believe that the CBC television network is a necessary institution in Canada.[40] Thus after six decades of operation, Canadians still consider the CBC as a cultural institution which must continue to foster cultural identity and national unity. This demonstrates the cultural disposition of Canadians to support public ownership of nation-building institution, such as the CBC.

There is no doubt that the creation of the CBC was influenced by the Canadian political culture, and since its inception, the CBC has been cultural instrument fostering national consciousness and identity as well as unity. Nevertheless, certain aspects of the Canadian political economy, especially the size of the market, lack of willing private investors and the need to fulfill

the legitimization function of the state also influenced the creation of the CBC.

### TRANSCANADA AIR LINES/AIR CANADA

After World War I, air transport became a major means of transportation in the developed world. Although Canada had a number of air line corporations, most of them were regionally based and did not service the whole nation. The United States also had its share of privately-owned air line corporations which were increasingly capturing a share of the Canadian market.

Policy makers were apprehensive of the possible domination of Canadian air line services by American air lines. Langford observed that " in terms of industrial structure there were no private firms ready to make the leap to a national carrier status.....[and] there was widespread consensus within the cabinet on the nature of the threat from United States air lines." [41]

In 1937, the Canadian government saw the need to establish a national airline. When C.D. Howe, the Minister for Transport moved the motion for a national air line to be created he noted that

"Canada is perhaps one of the few countries in the world without a national scheduled air service....

Many Canadian citizens when travelling from one point to another in Canada find they have to use the air lines in the United States, and they have been very insistent in demanding the establishment of a direct Canadian service."[42]

Government concern about Canadian reliance on American airlines was part of the motivation underlying the creation of TCA.

Besides this reason, national unity and integration were also important considerations in the decision of the federal government to establish a national airline. Public ownership of a national airline was viewed positively by policy makers in the context of possible domination by American airlines and the need to counteract some of the centripetal forces between the regions and the centre. Stevenson has suggested that part of the motivation underlying the creation of the TCA was to provide communication links between the disparate regions without relying on the United States.[43] This fact was acknowledged by C.D. Howe when he stated that a national carrier

"would prove of immense value for national purposes. . .the people living at the extremes of this country would be able to travel more frequently to the centres of government business..... and the inter-relations of the country would thereby be facilitated"[44].

The government intended to engage the interest of the private



sector in the creation of a national airline by offering to bear the cost of the necessary infrastructure and underwrite the losses of the new national airline. The government approached CPR and privately-owned Canadian Airways, but partly due to disagreement over the composition of the board of directors, the proposals of the government were turned down.[45]

Subsequently the government decided to establish a national air carrier as a wholly owned subsidiary of the Canadian National Railways. The CNR would then assume the responsibility of offering shares to interested corporations. In 1937 an Act of Parliament established Trans Canada Airlines (TCA) with the mandate "to establish and operate air line services across Canada and matters incident thereto".[46]

The underlying motive for the creation of a national air line was spelt out in the speech by C.D. Howe. The government intended to use the national air line to stem American domination of Canadian air line services, integrate the disparate regions by establishing air line services between them and the centre. The national air line was also intended to be symbol of nationhood and pride for Canadians. Thus, it could be argued that the Canadian political culture, to a large extent, influenced the government decision to create a national airline.

Within government circles, public ownership did not generate as much objection as the relationship between the CNR and the TCA. The leader of the opposition, Mr Bennett noted that "I am

clear in my mind that we should make some effort towards establishing an air service." Mr Bennett later remarked that "I plead with the Minister to reverse the process, to own the enterprise now and sell it later if he so desires." [47] Another member of the House, Mr. H.C. Green (Conservative Party) noted that]

"I believe that Canadians in every part of the nation are keenly interested in the establishment of a trans-Canada air service... I am heartily in favour of the establishment a trans-Canada air service ... I would ask the Minister why the government does not take the lead in organizing this new trans-Canada air line itself." [48]

Thus, members of the House of Commons, to a large extent, accepted the need for the creation of a Trans Canada Air line service. The main source of objection was the government decision not to assume direct ownership of the TCA. There was at least some consensus on government ownership. This observation lends support to the assertion that Canadian policy makers are inclined to 'big government' and public ownership , although some private interests, such as CPR and Canadian Airways, were probably not in favour of public ownership.

From a political economy perspective, it could be argued that policy makers were driven by the need to provide infrastructure in a situation where the private sector was unwilling or unable

to assume that responsibility. It must be noted that, before TCA was established, Canadian air lines were regionally based and were unable to meet the infrastructural needs of the nation as a whole.

When C.D. Howe introduced the Bill to establish the TCA, he noted that "much of our mail is routed across the border, transported by air services of the United States.....The volume of this air mail is sufficient to warrant the establishment of direct service in Canada." [49] Thus, there was not enough infrastructure to meet the needs of the nation in terms of air mail. Besides mail service, Canada also needed an air service to transport people and goods swiftly from the Atlantic to the Pacific. By opting for public ownership, the state was actually acting in the interest of the capitalist class as a whole by providing infrastructure to facilitate capital accumulation. Stevenson has suggested that public ownership and state regulation of the airline industry served the interests of Canadian capitalism which required a safe, convenient, reliable and efficient system of transportation. [50] Perhaps, certain fractions of the capitalist class represented by CPR and Canadian Airways may have been against public ownership, but the state overrode their interests for the benefit of the capitalist system as a whole

Due to the size and structure of the Canadian market, the private sector, at the time, did not have the capital to

undertake an airline service on a national basis. Moreover, CPR and Canadian Airways did not take advantage of the government offer to engage their participation in the formation of the TCA. It is the view of Stevenson that CPR did not respond to the proposals of the government, perhaps, because it had financial interests in Canadian Airways and would not want to engage in another venture which would compete with Canadian Airways.[51]

The lack of interest or inability of the private sector to establish a national air line service or respond to government proposals was not due to lack of entrepreneurship as advanced by the political culture approach. After all there were Canadian-owned airlines at the time. Probably, the size and structure of the Canadian market and the colossal amount of capital required to establish a national air service discouraged the private sector. In the United States, the private sector was able to take advantage of the size of the market, and the airline industry prospered under private ownership serving the domestic market and trans-border routes.

There is no doubt that the government intended to use TCA as a cohesive instrument to preempt American domination. From the political culture approach, the presence and overwhelming influence of the United States on Canada have fuelled nationalist sentiments which have found expression in the creation of nation-building institutions such as TCA. The political economy approach asserts that the Canadian dependency

on American capital and technology is increasingly driving the Canadian economy into a state of economic dependency and the consequent loss of political sovereignty. Government attempt to assert control has sometimes led to public ownership.

Undoubtedly, the imminent American domination was an important consideration in the decision to create a national air line. The government did not consider it appropriate that Canadian citizens and mails should be routed through the United States by American air lines. Molot and Laux rightly stated that "state intervention in the interwar years returned to its traditional format of establishing nation building institutions to protect Canada from the spill over of American interests." [52]

As a public corporation, TCA was a public policy tool, influenced by the Canadian political economy and political culture. Although Canadian Pacific Airlines (hereafter CPA) received the routes to Australia and Japan, the government granted TCA a wide range of monopoly rights to profitable international routes so that it could make enough profits to service uneconomic routes which serve national interest in Canada.

As a public policy tool, TCA was insulated from competition. In 1943, the Prime Minister noted that

"TransCanada Air Lines is the sole Canadian agency which may operate

international services. Within Canada, TransCanada Airlines will continue to operate all transcontinental systems."[53]

In the 1950s private air lines complained about the monopoly rights granted to the TCA. In 1954 CPA applied for licence to operate another international route from Vancouver to Amsterdam. In spite of opposition from the government and the management of TCA, CPA obtained the licence. Reacting to the application by CPA, the President of TCA at the time, Gordon McGregor, noted that

"I was still operating on the understanding that it was the government's policy for TCA, as the national airline, to be the Canadian flag carrier ...we tried to minimize the danger to the TCA by advocating that approval should be made contingent upon an extremely definite stipulation that neither at the outset nor at any later time would the CPA be given traffic rights at any other point in Canada."[54]

Through the Air Transport Board, the government protected TCA from competition to ensure its survival as a nation-building institution.

From 1958 the government began to pursue a policy of gradually allowing competition from other air lines, especially CP Airlines. In 1965 TransCanada Air Lines was re-named by Air

Canada.[55] In 1978 the government amended the Air Canada Act to deregulate the air line industry and allow privately owned air lines to compete with Air Canada. Under the new Act, Air Canada was separated from CN and directed to operate as a commercial enterprise with a profit motive.[56]

The origins and operation of Air Canada has been influenced by the political culture and political economy. Certain aspects of the Canadian political culture, especially the contradiction between the centre and the regions and the need to preempt American domination, fuelled nationalist sentiments which were sometimes channelled into the creation nation-building institutions, such as TCA/Air Canada. In view of the general consensus within the House of Commons during the debates on TCA, it might be argued that the statist tradition in Canada also influenced policy makers in opting for public ownership.

Political and economic forces also influenced the decision of the government to create a public enterprise. The size and structure of the Canadian market hindered the growth of a privately-owned national airline, consequently the government intervened to fill the gap left by the private sector as well as preempt the domination of American airlines. The state was also compelled by the need to provide infrastructure and to meet the interests of private capital. As an instrument of nation-building, Air Canada has had to contend with increased domestic and international competition. Torn between these two opposed

objectives of commercialization and nation-building, Air Canada was in a dilemma in the 1980s. The government gave up its public policy objectives and began a privatization program in 1987. The program was completed in 1989.[57] The origins and operations of Air Canada have been influenced by the Canadian political culture and changing political economy.

#### POLYMER/POLYSAR LTD

During World War II, the role of the state in Canada, as in the United States, increased considerably. The role of the state went beyond the provision of infrastructure to undertake production to assist the war efforts. Polymer Ltd was one of the war time public corporations created in 1942 in response to the exigencies of World War II. In 1941, 90 percent of the world's known supply of natural rubber came under Japanese control. There were many concerns about declining supplies of natural rubber in North America and Europe. Shortage of natural rubber posed a serious problem to allied war efforts, because natural rubber was an important raw material in the production of munitions.

In Canada, the construction of a synthetic rubber plant was given serious consideration by the Department of Munitions and Supply. Subsequently, the government established the Rubber Substitute Advisory Committee which was later superseded by the Rubber Technical Advisory Committee.[58] The Canadian government



in conjunction with the United States government and the private sector decided that twenty synthetic rubber plants should be established in North America; nineteen in the United States and one in Canada.[59]

Subsequently, in 1942 the Minister for the Department of Munitions and Supply introduced a Bill in Parliament for the creation of synthetic rubber factory - Polymer Ltd. Polymer Ltd was charged with "building and operating a synthetic rubber plant as the Canadian contribution to the war rubber program." [60]

In 1943, when the Minister of Munitions and Supply, C.D. Howe, was recounting the circumstances that led to the creation of Polymer Ltd, he noted that

"The rubber crisis came on us suddenly ... when Singapore was threatened we had occasion for the first time to be concerned about our stocks of rubber..Our neighbours in the south were in the same position. It was decided by consultation that the only satisfactory substitute for natural rubber is the type of rubber known as buna-S".[61]

State ownership of synthetic rubber manufacturing cannot be attributed to the Canadian political culture. In the United States, in spite of the belief in individualism and laissez-faire, the state also advanced plans to establish nineteen synthetic rubber plants when the supply of natural rubber was threatened by Japan.

Rather than the political culture approach, it was the political economy of the war situation that motivated the creation of synthetic rubber plants in the United States and Canada. In all capitalist states, like Canada, the economies are run mainly by private capital; however, in times of emergency or economic crisis which could not adequately be dealt with by the private sector, as in the case of World War II, the state sometimes intervenes to deal with the crisis. The federal government took the initiative and established Polymer in 1942, because the private sector could not deal with the rubber crisis.

In the 1940s, synthetic rubber manufacturing was a pioneering venture involving complex chemical processes that were still being mastered by the chemical industry in North America. The private sector was not particularly interested in the production of synthetic rubber because of the uncertainty associated with pioneering ventures, especially during the war. In Canada the difficulties of organizing private capital promptly to address the crisis influenced the government decision to create Polymer Ltd.. Thus, the extenuating circumstances of the war, the novelty of synthetic rubber production and lack of private capital compelled the government to establish Polymer Ltd. The situation was no different in the United States.

Mr. Nicholson(CCF) noted in parliamentary debates that "when our supply of natural rubber supplies disappeared, the firms

which normally might be expected to manufacture rubber were not particularly interested in risking any of their capital."[62]. Thus, the unwillingness of the private sector to invest in a pioneering venture was also an added reason for the creation of Polymer Ltd in 1942.

The creation of Polymer Ltd cannot be attributed to the statism of the Canadian political culture. Hardin, who subscribes to the political culture approach, concedes that "Polymer Ltd was an historical accident. If World War II had not occurred creating an emergency need for synthetic rubber, Polymer Ltd would not have occurred."[63]

From a political culture approach, Polymer Ltd could have been a historical accident, but from the political economy approach, it was intended to deal with the emergency and the crisis engendered by World War II and the inability of the private sector to deal effectively with the crisis.

By 1943, Polymer Ltd had met all design specifications and production began at the Sarnia plant, using inputs from the petroleum industry. Polymer Ltd was the first integrated synthetic rubber factory, manufacturing the main components of synthetic rubber - butadiene, styrene and isobutylene. Polymer relied on the expert advice of well established firms in the petrochemical industry such as Dow Chemicals and Canadian Synthetic Plant. Between 1944 and 1954 the government investment in the plants increased from \$48 million to \$72.3 million and

employment rose from 1,853 to 2,458.[64]

Peace time demand for synthetic rubber increased considerably in North America and Europe. American plants under private ownership were serving the North American market and capturing a share of the European market. Polymer Ltd was also capturing a share of the export market; in 1953, about 50 percent of the output was exported, 30 percent going to Europe and the balance to the United States.[65] Polymer began to explore the European market as part of a larger program to adjust to peace time production. To meet the increased demand for synthetic rubber after the war, the plant at Sarnia was expanded and two more plants were erected in Europe. A specialty plant was completed in France in 1962 and in 1963, a butyl plant was completed in Belgium. An international marketing organization was established in Switzerland and a joint venture in Mexico. By the late 1960s Polymer Ltd was controlling about 10% of the world synthetic rubber market. In the 1970s, Polymer Ltd diversified into latex production in North America and Europe.[66]

The United States government returned the synthetic rubber plants to the private sector after the war. By the late 1950s, synthetic rubber production was under the control of the private sector. However, Canada retained Polymer Ltd as a public corporation after the war - this could possibly be attributed to the statism of the Canadian political culture and the inclination of policy makers.

In 1943, when the Polymer plant began production, C.D. Howe noted that "the government is investing \$40,000,000 to \$45,000,000 in the production of artificial rubber, and when this program is finished the government's expansion in that direction will be finished also. If any private industry cares to carry on then, we shall have no objection." [67] In spite of this assertion, after the war the government did not make any serious effort to privatize Polymer. In 1946, C.D Howe noted that

"the manufacture of synthetic rubber by the government of Canada is for the general advantage of Canadian business. I have yet to hear of any business man suggest it was not a good thing for Canadian business to have Canada's only source of rubber in the hands of the government rather than in the hands of private corporations." [68]

Mr Nicholson (CCF) also noted in parliamentary debates that

"it has been demonstrated that a high quality of synthetic rubber can be made by Polymer, there are those who think that the government should retire from this field. The Minister should be wise enough not to pay too much attention to those who argue that the free enterprisers should have a clear sailing in this field." [69]

The government was ambivalent on Polymer's fate after the war. While the Minister hinted that that they would be prepared to dispose of Polymer, he also intimated that it was beneficial and in the interest of business for Polymer to be retained as a

public enterprise. In spite of the ambivalence, the government eventually settled with the retention of Polymer Ltd. There were some policy makers, besides the Minister, who felt that Polymer should be retained by the government. There was little political disagreement with the view that Polymer should be retained after the war. The inclination to retain Polymer, even after the extenuating circumstances leading to its creation had disappeared, could be attributed to the statism of the Canadian political culture. Moreover, the private sector according to the Minister did not object to public ownership, or express any desire for Polymer to be privatized.

Perhaps, the private sector was content with public ownership of Polymer Ltd. because of the high cost of research and development and rapid technological changes in the synthetic rubber industry. Through public ownership the cost of research and development, which would otherwise be borne by private capital, was socialized for an industry which produces inputs for several sectors of the economy. It is plausible to suggest that continuous public ownership of Polymer Ltd. served manufacturing interests dependent on inputs from the synthetic rubber industry. In 1972, the government sold Polymer Ltd to Canada Development Corporation (hereafter CDC), a newly created mixed enterprise, and in 1973 it was renamed Polysar Ltd..

The origins of Polysar Ltd was dictated by the political economy of the war situation rather than the Canadian political

culture. The United States government also resorted to public ownership to deal with the rubber crisis during the war. Although the United States privatized synthetic rubber production after the war, Canada retained Polysar after the war. The difference in attitude towards synthetic rubber production after the war could be attributed to the differences in political culture and the inclination to public ownership in Canada. It is also possible that the difference in government policy after the war may have been shaped by different political and economic forces. Perhaps, Canada opted for continuous public ownership because it served certain manufacturing and private interests.

#### CANADA DEVELOPMENT CORPORATION

In the late 1960s, there was a growing sense of economic nationalism in response to increased foreign control. The government was also concerned about increased non-resident control. Due to the lack of capital and the weakness of the capital market, risk capital for small and new firms as well as capital-intensive projects was critically lacking. A gap was thus perceived in the Canadian industrial and venture capital sectors which was being filled by non-resident capital. The Royal Commission on Canada's Economic Prospects, The Watkins Report, The Wahn Report and The Gray Report were all initiated by the federal government to study the issue of non-resident control in Canada.[70]

In response to these Reports, the federal government of Prime Minister Pierre Trudeau was determined to address the problem of foreign control. Besides other policy instruments, the government decided to establish a mixed enterprise -Canada Development Corporation (hereafter CDC). Commenting on the formation of the CDC, 'Canada and the World' magazine noted that

"Canadians have long been concerned about the increasing foreign control of their economy, mainly through the purchase by Americans of one firm after another...CDC will not make an attempt to buy Canada back from foreign investors...it may help keep some firms now in Canadian hands from slipping under foreign ownership."[71].

The Canada Development Corporation Act established a holding company with the mandate

- 1) To help develop and maintain strong Canadian -  
controlled and managed corporation in the  
private sector.
- 2) To give Canadians greater opportunities to  
invest.
- 3) To operate profitably in the interest of all  
shareholders.[72]

The government also stated that CDC will neither be an agent of the crown nor be subjected to the Financial Administration Act, and the government will not interfere with the operations of the



Corporation.

From a political culture perspective, the rise of economic nationalism in the late 1960s may have influenced the decision of the government to create CDC. Gallup poll results, published by the Canadian Institute of Public Opinion, revealed that while 46 percent of the respondents in 1964 felt there was too much American capital in Canada, 60 percent felt the same way in 1967, and in 1972 it was 62 percent.[73] Economic nationalism in Canada has sometimes been directed against the United States and has sometimes motivated state interventionist policies. The creation of the CDC cannot be divorced from the pervading sense of economic nationalism in the late 1960s.

The inherent lack of entrepreneurship is another facet of the Canadian political culture, which is presumed to motivate state interventionist policies.[74] During parliamentary debates on the creation of CDC, NDP Member for Waterloo, Max Saltzman also noted that "what has happen in Canada has been the failure of entrepreneurial spirit. We have have been too cautious." [75] Due to lack of entrepreneurial spirit, the Canadian economy is increasingly coming under foreign control and some form of policy instrument is required to assist entrepreneurship. Subsequently, one of the objectives of CDC was to develop and maintain entrepreneurship in the private sector.

The CDC was received with mixed feelings in the House of Commons. The NDP members in the House felt that since the CDC was

supposed to operate with the intention of making a profit it will not be able to address the issue of foreign control or increase Canadian ownership in the economy. Max Saltzman noted that

"after waiting for eight years for a Canada Development Corporation, I will not have very much to say in its favour..... It seems to be designed to undercut the growing concern that has taken place in this country..... We need something that will act as an instrument for Canadian government policies and secure Canadian objectives. You cannot do this with a corporation primarily oriented towards profit." [76]

The leader of the opposition, Mr Stanfield, noted that

"before being asked to establish the Canada Development Corporation, we ought to have before us the government's analysis of the reason why we are losing control of the economy and the reasons Canadians are not participating.... we see no evidence that the creation of yet another crown corporation would at this time do anything effective either to increase Canadian independence." [77].

Though the issue of foreign control was at the fore, not all policy makers, at the time, felt that the creation of a public enterprise could deal adequately with the problem. While the Conservatives were against public ownership at the time, the NDP were in favour of a public enterprise with public policy objectives eschewing profits. The reaction to the creation of the CDC revealed the disposition of the parties, at the federal

level, towards public ownership. This may support the suggestion that party ideology has some influence on the use of public ownership as a policy instrument. This is contrary to the argument advanced by the political culture approach that, because of the statist tradition in Canada, all political parties are inclined to use public enterprises when the opportunity occurs.

The domestic and international political economy also influenced the government decision to create CDC. When the Finance Minister, Edgar Benson introduced the Canada Development Corporation Act in 1971, he noted that the reasons underlying the need for a public enterprise along the lines of the CDC was that

"business and industry have entered a new period of internationalism which makes it desirable that there be a number of Canadian controlled corporations with headquarters in Canada and with a kind of institutional strength and management capabilities to compete successfully in Canada and internationally." [78]

The Minister's statement underlines how internationalization of the world economy exerts pressure on national governments to assert some control over the economy as well as increase the international competitiveness of the national economy. Due to the weak manufacturing sector, Canada is unable to compete effectively in the global economy, and the national economy is increasingly coming under foreign control to the detriment of

Canadians. For example in 1970, Canadians controlled only 39 percent of the manufacturing sector, while Americans controlled 47 percent.[79] It is the view of Laux and Molot that the creation of the CDC is "inseparable from a decade of debate over the consequences of high levels of foreign investment in Canada, especially over the role of American branch plants." [80] CDC was a policy instrument, partly motivated to address the issue of foreign control and increase the international competitiveness of the economy.

A mixed enterprise was considered appropriate, because it would enable the CDC to serve public policy objectives with minimum government intervention and meet the commercial objectives spelt out in the mandate. The political culture approach fails to explain why a mixed enterprise, such as CDC, was chosen as the appropriate policy instrument instead of a wholly-owned government enterprise.

From a political economy perspective, it could be argued that CDC was a policy instrument designed to meet the interests of various sections of the business community as well as other political forces. The nationalist faction of the business community, most often 'small businesses' which lack investment capital and are sometimes victims of takeovers by foreign capital were very much in favour of a public enterprise with nationalist objectives.[81] On the other hand, certain factions of the business community were against the creation of the CDC.

According to Brooks, the CDC was considered by some sections of the business community as "an illegitimate intrusion upon private sector hegemony in the produce-for-profit sector." [82] Although the Liberal Party has traditionally supported 'small business', it did not want to alienate other factions of the business community. Brooks has suggested that there were some reservations within the Liberal Party on the creation of a public enterprise, and bureaucrats at the Department of Finance were in favour of some form of fiscal policy to encourage Canadian investors rather than public ownership. [83] The Liberal government's attempt to strike a balance between all these contending forces led to the creation of a mixed enterprise - CDC. According to Brooks

"in view of this combination of bureaucratic disinclination and private sector opposition. The government decision to create a mixed enterprise..... must be attributed to the political commitment that had developed under successive Liberal governments ....Thus, symbolic expression was given to nationalist demands." [84]

CDC was intended to appease nationalist sentiments and certain fractions of the business community without alienating the business community as a whole. Nationalist sentiments were evident in the mandate establishing the CDC. The Act stipulated that the directors and shareholders should be Canadians or

Canadian residents. It was intended that a public share offering would eventually reduce the government equity share to ten percent.

As a policy instrument, CDC was intended to operate in certain sectors of the economy with growth potentials. In this regard, the corporation concentrated in six areas of operations including; petrochemicals; pipelines and transportation in the north; petroleum and natural gas; mining smelting and refining; venture capital and pharmaceutical products.

In an attempt to increase Canadian control of the economy, the CDC did not only engage in buying back foreign controlled firms, but encouraged and promoted the sound growth of Canadian controlled firms. It increased the supply of Canadian equity funds and investment opportunities to reduce Canadian dependence on non-resident capital.

In 1972, the CDC bought Polysar Ltd from the federal government. The CDC supported Polysar Ltd in a joint project with Dupont Canada Ltd. which led to the creation of Petrosar Ltd in 1978.[85] In the mining sector, CDC acquired 35 percent of Texasgulf Inc. in 1973. In 1981 CDC exchanged the equity interest in Texasgulf plus \$536.7 million cash for Texasgulf's mining, oil and gas interests in Canada.[86]

In the petroleum and natural gas industry, the CDC acquired the Canadian assets of Tenneco Oil and Gas Ltd. in 1975 for about \$111 million. The company was renamed CDC Oil and Gas Ltd. In

1981 CDC purchased 75 percent of Aquitaine Company of Canada, and all the oil and gas companies were brought together under Canterra Energy Ltd.[87]

Through CDC Venture Inc., Canada Development Corporation operated one of Canada's largest pool of venture capital. It provided venture capital for small and new firms with growth potentials. In 1978, the CDC acquired AES Data and Wordplex Ltd. producers of word processing equipment. Though Wordplex Ltd was divested in 1984, CDC operations expanded into the production and marketing of office information products through the CDC Data Systems Ltd..[88]

In the pharmaceutical industry, CDC Life Sciences Inc acquired Connaught Lab Ltd and Bio-Research Lab Ltd. CDC also owned 50 percent of Allelix Inc., a relatively new venture, exploring applied research in the field of biotechnology.[89]

The CDC did not only provide venture capital for Canadians, but successfully participated in the international economy through its numerous subsidiaries. The CDC had subsidiaries operating in the U.S., Europe, South America and Australia. Brooks has argued that while these international investments generated surplus value and contributed to Canada's balance of trade, they did not contribute to the industrial development of the domestic economy.[90]

The origins of the CDC were influenced by certain features of the Canadian political culture, especially the inherent lack of

entrepreneurship and the rise of economic nationalism. The CDC was received with mixed feelings in the House of Commons indicating that there was a lack of consensus on how to assert the pervading economic nationalism. Public ownership was not favoured by all the members of the House. This is contrary to the political culture interpretation that statism is a pervasive feature of the Canadian political culture. However, it lends support to the argument advanced by the political economy approach that party ideology may influence the choice of policy instrument.

Foreign control, lack of venture capital, increased international competition and the need to assert control over the national economy were some of the political and economic issues underlying the creation of the CDC. The political and economic pressures within the Liberal Party and from various sections of the business community as well as from the bureaucracy shaped the choice of policy instrument. The political economy approach advances a more potent explanation for the creation of the CDC than the political culture approach, especially on the factors underlying the choice of a mixed enterprise as a policy instrument rather than a wholly-owned government enterprise.

#### AIRCRAFT MANUFACTURING: DE HAVILLAND AND CANADAIR LTD.

Canadair Ltd and De Havilland are privatized public enterprises which have been shuffled between private and public



ownership since their inception. The focus here is to determine whether the Canadian political culture or the political economy was the driving force behind the government's decision to assume ownership of De Havilland and Canadair Ltd in the mid 1970s.

The aerospace industry is a high-risk industry, requiring large amounts of capital and technical know-how. Research and development is very important in high technology industry. In the early 1970s a substantial part of the aerospace industry in Canada was controlled by multinationals, such as McDonnell Douglas, Hawker-Siddeley and General Dynamics.

When World War II started, the federal government built an aircraft manufacturing plant and leased it to Vickers Ltd, a British subsidiary. Anticipating a decline in the demand for aircraft after the war, Vickers Ltd intended to move out of aircraft manufacturing in Canada. However, the federal government was reluctant to close down the aircraft plant leased to Vickers Ltd, so in 1944 the federal government took over the operations and created Canadair. In 1947, the federal government sold Canadair to Electric Boat Company, the forerunner of General Dynamics.[91]

In 1947, a government-owned aircraft manufacturing company, Victory Aircraft, was sold to Hawker-Siddeley, another British multinational. Hawker-Siddeley later absorbed De Havilland Ltd, an aircraft manufacturing company incorporated in Canada in 1928 by British De Havilland.[92]

Thus, after World War II both De Havilland and Canadair Ltd were under private ownership. Under private ownership both De Havilland and Canadair relied heavily on military aircraft and exports to the United States. Canadair exported 80 percent of its output, the bulk of which went to the United States.[93] The government ordered the North Star aircraft for TransCanada Airlines and the F-86 for the Canadian Armed Forces.[94]

In the 1950s, De Havilland was supplying aircraft to the United States for the Korean War. At the peak of the Korean War De Havilland had a workforce of 6,000.[95] Through government military acquisition policy, the Canadian government supported De Havilland. Between 1947 and 1952, government financial support amounted to \$6.6 million. The federal government also provided grants to Canadair to the tune of \$68 million between 1947 and 1975.[96]

American defence policy of sourcing military aircraft from the United States and the declining involvement in Vietnam after 1970, coupled with the cutbacks in the procurement budgets of the Canadian forces, drastically reduced the demand for military aircraft from Canadair and de Havilland. Sales prospects at De Havilland was bleak and sales at Canadair plummeted from \$117.5 million in 1970 to \$40 million in 1973.[97]

In the 1970s, the aerospace industry was shifting away from military aircraft to commercial aircraft and the space program. In response to these changes, General Dynamics was channelling

its decreasing contracts to its parent company in the United States. Hawker-Siddeley was reluctant to proceed with the development of the STOL Dash 7 aircraft because it favoured the development of a similar aircraft at home.

There was a growing concern in Canada that foreign ownership was constricting the aerospace industry in Canada. In response to declining demand for military aircraft and the international restructuring of the aircraft industry, General Dynamics and De Havilland were reluctant to recapitalize their operations in Canada. In 1975, Mr T.C. Douglas (NDP) noted in parliamentary debates that "General Dynamics has always put its future ahead of Canada." [98] Speaking on the aerospace industry in 1975, the Prime Minister, Pierre Trudeau, observed that the government "has discussed and is concerned with situations .....where control of companies is exercised abroad sometimes not to the benefit of Canadian workers and the Canadian people." [99]

In 1974, Hawker-Siddeley declared its intention to wind up operations in Canada in spite of government financial support. After supporting the Dash-7 project financially, the government did not want the project to be abandoned. The government signed an option agreement to purchase De Havilland by June 1974, hoping to interest the private sector in buying the corporation. Spar Aerospace Products and Canada International Comstock Company expressed some interests in buying De Havilland, but they did not buy it, so the government exercise the option and purchased De

Havilland for \$38 million.[100]

In 1975, General Dynamics also declared its intention to shut down operations if it did not find a purchaser. Since there were no willing indigenous private investors to replace General Dynamics, the federal government purchased Canadair for \$38 million in December 1975.[101] Commenting on the reasons for public ownership of Canadair, Borins and Brown noted that "to shut down Canadair would have meant losing the technological advances that have been achieved...[and] since Canada is a major consumer of aviation products, the loss of Canadair would have had unfavourable effects on the country's balance of trade." [102] By the mid 1970s, both Canadair and De Havilland were under public ownership.

In response to the question of why the government assumed ownership of Canadair in 1975, Donald C. Jamieson, the Minister for Industry, Trade and Commerce noted that "Obviously it is to have Canadian control over the aerospace industry" [103]. The Minister further noted in 1976 that the government assumed ownership of De Havilland and Canadair so that "there will be an excellent possibility of restructuring the aircraft industry in Canada and getting a stable industry more controlled by Canadians." [104]. The decision by the federal government to purchase Canadair and De Havilland was a response to the symptoms of a weak manufacturing sector, domination of the manufacturing sector by multinationals, increased

international competition and the need to assert control over the economy.

A considerable part of the aerospace industry in Canada was controlled by multinationals in the 1970s. Due to world wide changes in the aerospace industry, and increased international competition, these multinationals were restructuring production by transferring contracts to their parent companies. In Canada, the parent companies of United Aircraft Company, Douglas Canada Ltd, Canadair Ltd and De Havilland Ltd were all transferring their decreasing contracts to their parent companies. Canadian investors could not replace them because they lacked the capital, technological capabilities and marketing experience required in the aerospace industry. In 1975 the 'Financial Post' observed that "the government is not anxious to get into business, the Minister, Alastair Gillespie wants to find new all-Canadian corporation buyer to take over these companies." [105]. Lack of indigenous capitalists also compelled the government to assume ownership of Canadair.

Laux and Molot observed that the federal government took over the aircraft manufacturing companies "as part of a response, not to market failure, but to the effects of global restructuring by successful international firms. To ensure a national presence in a leading industry, the state became an entrepreneur". [106]

Although the government was not bent on going into aircraft manufacturing it was forced by circumstances, especially the

domestic and international political economy, to assume ownership. There was, at least, some agreement in government that Canadair and De Havilland should come under government ownership, partly, in response to the general feeling of economic nationalism that pervaded Canada at the time, and the concern that foreign control was disrupting the aerospace industry in Canada.

External threats to Canada have always engendered a feeling of economic nationalism, sometimes, expressed in the creation of public enterprises. That feeling was compounded by the domestic political economy, especially the lack of interested indigenous private investors to assume ownership of the companies. In both cases the government signed an option agreement with the intention that the private sector would express some interests and the option will not be exercised.

In the United States aircraft manufacturing is entirely under the control of indigenous capital, and the huge American market, as well as export sales, can support several viable companies. American government policy of sourcing military aircraft from domestic sources also ensured the survival of the aerospace industry, so the government did not have to assume ownership to save the industry from collapse. The difference in the ownership structure of aircraft manufacturing in the United States and Canada is not so much due to the difference in political culture but the politics and economics of

aircraft manufacturing.

It could also be argued that because of the slack in the aerospace industry, private capital was unwilling to risk investment in the sector. By taking over De Havilland and Canadair, the government was socializing the cost of sustaining these companies as well as the high cost of research and development, which would otherwise be borne by private capital. Other political and economic considerations, such as sustaining jobs in the ailing aerospace industry also influenced the decision of the federal government to assume ownership. Perhaps the Liberal Party wanted to sustain its political support after the 1974 election victory, and so it assumed ownership of Canadair and De Havilland to sustain jobs in the aerospace industry. Moreover the Liberal Party's commitment to state interventionist policies and economic nationalism may have influenced the government's decision to assume ownership.[107] Canadair and De Havilland were bailed out by the federal government in response to the international restructuring by General Dynamics and Hawker-Siddeley. Government intervention was required because indigenous industrialists were presumed not to have the ability, or interest, to undertake high technology ventures and compete in the international market at the time.

In response to the intense feeling of economic nationalism the government did not see it fit in 1975 to consider offers from foreign investors, so in the absence of indigenous investors the

government assumed ownership. The Canadian political culture of economic nationalism, mainly, directed against non-resident control was compounded by the domestic and international political economy to compel the government to assume ownership of De Havilland and Canadair Ltd in the mid 1970s. However, international changes in the aerospace industry and the domestic political economy were particularly important factors which shaped the decision of the government to assume ownership of Canadair and De Havilland.

#### PETRO-CANADA LTD

Petro-Canada is one of the largest public enterprises with assets worth \$6.8 billion in 1990.[108]. More than earlier resources, the oil and gas industry requires large amounts of capital and technology. American multinationals which have acquired the technology and the capital base for oil exploration gravitated towards Canadian oil fields after World War II. Consequently the Canadian oil and gas industry has traditionally relied heavily on foreign capital, especially American capital.

American subsidiaries prospered with the oil boom in the late 1960s. In the 1970s, the oil and gas industry was one of the fastest growing sectors in the economy with very high capital returns. However, most of the profits were going to American multinationals. These multinationals self-financed their internal growth without resorting to Canadian equity capital,



thus entrenching themselves in the oil and gas industries and precluding the participation of Canadian equity capital that was available. Table 12 shows the high degree of foreign ownership in the petroleum and gas industries in 1973 and 1975. It also shows the high degree of growth and self-financing in the industries. Assets in the industries increased by about 40 percent between 1973 and 1975, for the same period revenue increased by 80 percent. A large part of this increase was controlled by American multinationals.

The Canadian government estimated that, in the 1970s, over 90 percent of the assets in the oil and gas industry were under foreign control.[109] The operations of these multinationals were profit motivated, so they neglected the high risk aspect of the petroleum industry.

In the early 1970s, the climate of political opinion underwent radical changes. Canadians were particularly concerned about American presence and domination of the economy. The publication of the Watkins Report and the Gray Report [110] also stimulated nationalist sentiments. Gallup polls released by the Canadian Institute of Public Opinion in 1973, showed that 48 percent of Canadians were in favour of the nationalization of energy resources while 36 percent were in favour of private ownership.[111]

It was under this political climate that the Liberal Party formed a minority government with NDP backing. The Liberal

TABLE 12: FINANCIAL SUMMARY OF THE PETROLEUM AND GAS  
INDUSTRIES 1973-75

(in millions)

|                            | 1973   | 1975   |
|----------------------------|--------|--------|
| Total Assets               | 14,569 | 20,990 |
| Revenue                    | 9,688  | 16,002 |
| Degree of Self-Financing % | 131.5  | 127.0  |
| Foreign Ownership          |        |        |
| (Revenue)           %      | 78.7   | 76.1   |
| Foreign Control            |        |        |
| (Revenue)           %      | 94.0   | 92.9   |

Source: Adopted From Pratt, L 'Energy: The Roots of  
National Policy', in Studies in Political Economy  
No.7 Winter, 1982,p.44

Party's precarious hold to power made it responsive to public opinion and NDP pressure. The government, under NDP pressure, reviewed the energy policy in a paper entitled 'An Energy Policy For Canada - Phase I'. The policy review appraised the role of the government in the oil industry and the creation of a national oil company with tentative conclusions. The government began to regulate the export of crude oil to the United States by imposing export duties. Domestic price controls were also imposed to protect consumers in Canada. This sparked a row between oil producing provinces, led by Alberta, and the federal government..

It was in the midst of these policy directives that the 1973 Arab-Israeli conflict broke out and subsequently disrupted the international oil market. Oil became a political weapon and the OPEC cartel began to exert control over the price and export of crude oil . The structural relations between the oil-producing countries and the multinationals underwent radical changes. Although the Arab oil-producing countries did not place an export embargo on Canada, the government was concerned about the security of external oil supplies. This concern was confirmed when a United States subsidiary, Imperial Oil, diverted a portion of imported crude oil destined for Canada to the United States. In response to these developments the NDP introduced a motion in Parliament in October demanding that a National Petroleum company be established.[112] Although the motion was not adopted

immediately, in December the Prime Minister, Pierre Trudeau, noted that the new oil policy of Canada would involve "the establishment of a publicly owned petroleum company principally to expedite exploration and development." [113]. In 1974, the government introduced a bill to create a national oil company, but the government was defeated in parliament on an unrelated issue. The government's intention to create a national oil company in 1974 was, partly, intended to appease the NDP. However, when the Liberal Party returned to power in 1974, with a majority, it was determined to create the national oil company envisaged in 1973. The electoral victory of the Liberal Party may have been interpreted by the party as a mandate to pursue the creation of a national petroleum company

In 1975, when the Minister for Energy, Mines and Resources introduced the Petro-Canada Act, he noted that

"The terms and channel of access to overseas oil and energy supplies to meet deficiencies in our own domestic resources have sharply changed. Fresh uncertainties have arisen .... The government does not feel assured that the private sector can be relied upon to mobilize all of the enormous amount of capital which will be required to secure energy development...we are looking to the company to increase the Canadian presence in a sector which is of critical importance." [114]

The Minister's statement captured the domestic and international political economy which impelled the government to create Petro-Canada in 1975.

The inherent lack of entrepreneurship in Canada, has been advanced by the political culture approach, to explain state interventionist policies and public ownership intended to support the private sector. In the case of the petroleum industry, since there were some Canadian-owned firms in the industry, state intervention could not be attributed to lack of entrepreneurship. Perhaps, the structure of the industry and the lack of private capital did not permit the full participation of Canadians, consequently some form of government intervention may have been required to ensure a significant Canadian presence.

The rise in economic nationalism in the early 1970s also influenced the decision of the federal government to create PetroCanada in 1975. Economic nationalism in Canada has often been tinged with anti-American feelings because of the overwhelming presence of American economic interests in Canada.

The statist tradition of the Canadian political culture may have influenced policy makers to create PetroCanada. The fact that the United States did not create a national petroleum company to deal with the 1973 oil crisis could be attributed to the difference in political culture.

In spite of the inclination towards public ownership, the Petro-Canada Act was received with mixed feelings in the House of

Commons. James Gillies, a Conservative member, noted that "There is nothing that suggests that we need this particular corporation to do the things that the Canadian people want done. It will not produce one extra barrel of oil for Canada."[[15]. On the other hand, T. C. Douglas of the NDP noted that "we in the NDP not only do not object but welcome the wide powers and the financial investments which are authorized by the legislation."[[16]. Though at the time the feeling of economic nationalism was widespread, not all policy makers felt that a national oil company was the appropriate means of channelling this nationalism. Perhaps, instead of the Canadian political culture, other factors such as the class interest of political parties and other political and economic forces may have influenced the government's decision.

From a political economy perspective, the United States did not require a national oil company to deal with the 1973 oil crisis, because indigenous capital was in control of the domestic oil industry and a sizable portion of the world oil industry. So the changes wrought by the 1973 oil crisis were felt differently in the United States and Canada. Mainly because of the nature of the Canadian political economy, a national oil company was considered an appropriate policy instrument to deal with the crisis. In the United States the government regulated the supply of oil and domestic oil reserves assumed a new importance.

The structure of the petroleum industry and domestic

political pressure may have influenced the government. The economic rent accruing to the oil industry was being captured by the oil-producing provinces led by Alberta. These provinces were in favour of competitive market prices for petroleum and the rapid exploitation and exportation of these resources. Meanwhile the oil consuming provinces in eastern Canada were in favour of some form of government intervention to regulate the price and export of petroleum products to ensure the security of supplies. The 1973 oil crisis underlined the insecurity of external oil supplies, especially for the provinces east of the Ottawa valley, which depended on external sources. The fact that the federal government wanted to share in the economic rent accruing to the industry and pressures from consuming provinces in eastern Canada also influenced the decision of the federal government to create PetroCanada in 1975.

These developments were compounded by the domestic political situation, especially NDP pressure on the Liberal minority government to establish a national petroleum company. Although PetroCanada was finally created in 1975, Pratt has noted that "the NDP pressure certainly influenced the timing of the decision." [117]

Pratt has also suggested that pressure from the Ministry of Energy, Mines and Resources bureaucrats, who wanted to extend their influence and exert control over a volatile international oil market also influenced the decision to create PetroCanada in

1975. Petro-Canada was to a large extent a response to the domestic political economy and the global restructuring of the oil market. Larry Pratt notes the "the Canadian state involved itself directly in economic development in response to threats from the external environment..... in this case the Arab oil producers and multinational oil companies that were deemed to be menacing Canada's security and independence." [118] The Petro-Canada Act charged the national oil company with the objective

"to explore for hydrocarbon deposits,  
to negotiate for and acquire petroleum  
products from abroad to assure  
continuity of supply for the needs of  
Canada.. and to engage in exploration  
...and marketing of fuels." [119]

The decision of the federal government to create PetroCanada was not intended to displace private capital but to serve the interest of Canadian capitalism as a whole. The Minister For Energy Mines and Resources noted that in spite of the creation of the PetroCanada "private investment... will continue to play an important role in this area" of the economy. Perhaps, the decision to create a national oil company was intended to serve the interests of certain fractions of the capitalist class. It was in the interests of major oil consumers in eastern and central Canada for the government to restrict exports and regulate oil prices to ensure security of oil supplies. Pratt has suggested that the creation of PetroCanada may be seen as a "step



to protect the interests of oil-dependent manufacturers and industries concerned about the security of their oil supplies"[120]

Petro-Canada was granted a five-year budget of \$1.5 billion to undertake the exploration and development of hydrocarbons and other types of energy; carry out energy research and development; to import produce, transport, distribute, refine and market hydrocarbons.[121]

In pursuit of these objectives, Petro-Canada's operation was oriented mainly towards upstream activities in the oil industry. With the assistance of government grants, Petro-Canada was able to undertake high risk frontier oil exploration which was avoided by private companies in the industry. These ventures involved exploration of tar sands, heavy oil, the Arctic Islands and the offshore Labrador shelf. Private capital was reluctant to undertake high-risk frontier oil exploration because of the large amounts of capital required and the uncertain rates of return. It may be suggested that PetroCanada was socializing the high risk aspect of the industry. Pratt has noted that there could be some element of truth to interpret "the Liberal decision to establish a state oil company as merely another policy to subsidize the risks and costs of private capital." [122] In 1976 the federal government transferred its 45 percent interest in Panarctic Oils and 15 percent interest in Syncrude to Petro-Canada.

To increase Canadian ownership in the petroleum industry, Petro-Canada began the acquisition of mostly foreign owned oil companies. In 1976 Petro-Canada acquired Atlantic Richfield Corporation (renamed Petro-Canada Exploration Inc). It also acquired Pacific Petroleum in 1978 and Belgian owned company, Petrofina Canada Ltd in 1981.[123]

In 1979, Joe Clark's minority Conservative government came to power with a promise to privatize PetroCanada. Stanford has suggested that the commitment to dismantle PetroCanada was part of an electoral strategy to please oil-producing provinces which were Tory strongholds.[124] However, Joe Clark's government was replaced by the Liberal government, which, in turn, shelved the privatization program and began to strengthen PetroCanada through the National Energy Program. The reaction of the Liberals, the Conservatives and the NDP to PetroCanada may seem to suggest that these parties have ideological differences with regards to a national petroleum company. It is plausible to suggest that the Liberal Party's disposition to public ownership may have influenced the timing and the creation of PetroCanada. This suggestion that may have some element of truth in the light of the fact Mulroney's government introduced the Western Accord, deregulated the petroleum industry, repealed the National Energy Program and declared its intention to privatize PetroCanada. In 1991, Petro-Canada began to offer shares to the public in response to government intention to privatize the company. As at

August 1991, the government still accounts for about 81% of the shares.[125]

The rise of nationalism and anti-American feeling are features of the Canadian political culture which may have influenced the decision of the federal government to create PetroCanada. The inherent statism of the Canadian political culture may have also influenced the reaction of the government to the 1973 oil crisis.

In addition to these aspects of political culture, the domestic political economy, especially the structure of the oil industry, and lack of private capital, also influenced the decision to create PetroCanada. Bureaucratic pressure, political alliances and forces, the Liberal Party's disposition to public ownership and the interests of certain factions of the capitalist class were all factors which shaped the decision of the government. Lastly, the changes in the international oil industry also compelled the Liberal government to intervene.

### CONCLUSIONS

The political economy and political culture approaches capture some of the factors underlying the creation of federal public enterprises. The discussions of the origins of these selected public enterprises demonstrate the complexity of the factors underlying the creation of public enterprises in Canada.

Although both approaches provide explanations for the

creation of these selected public enterprises, the political economy approach provides a relatively better explanation for the creation of some of the selected public corporations, including Polymer Ltd., De Havilland, Canadair Ltd. and Petro-Canada. On the other hand, the political culture approach captures some of the factors underlying the creation of some of the selected public enterprises which are not considered under the political economy approach. For example some of the reasons underlying the creation of CBC and TCA fit relatively well into the political culture model. Nonetheless, both approaches provide explanations, although from different perspectives, on the origins of federal public enterprises.

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## CHAPTER FIVE: CONCLUSIONS

The purpose of this study was to examine the political economy and political culture approaches to the explanation of the origins of federal public corporations, and to determine which of the approaches best captures the Canadian experience. As part of the objective, the two approaches have been applied to the study of selected federal public corporations and former public corporations in Canada.

Public enterprises have been motivated by certain features of the Canadian political culture. Some of these features include collectivism, statism, conservatism and lack of individualism and laissez-faire ethics. The political culture perspective notes that Canadian liberalism, unlike that of the United States, has a streak of toryism, which has fostered elitism, particularism and collectivism in Canadian society. The lack of individualism and the commitment to organic unity and collectivism have created an atmosphere favourably disposed to public enterprises. The disposition to collectivism and organic unity has inclined policy makers to make increasing use of public enterprises when the occasion arises. In the Constitution Act of 1867, the fathers of Confederation enjoined the federal government to construct the Intercolonial Railway. Since then, policy makers have exhibited high levels of consensus in the creation of public enterprises such as Air Canada, CBC and Teleglobe. However, in spite of

pervading attitudes of statism and collectivism, there was lack of consensus on the creation of some public enterprises, including CDC and PetroCanada.

The defensive colonial settlement in Canada, as opposed to the uncontrolled frontier in the United States, stifled the development of individualism, entrepreneurship and laissez-faire ethics in Canada. Lack of entrepreneurship and laissez-faire ethics have created a gap in the private sector in Canada, which has on several occasions been filled by the creation of public enterprises, such as the CDC and, to a certain extent, Air Canada.

From the political culture perspective, Canada is hinged on three sets of contradictions based on French Canada against English Canada; the regions against the centre; and Canada against the United States. These sets of contradictions have engendered nationalist sentiments and a need for national integration which have found expression in the creation of federal public corporations such as the Intercolonial Railways, CBC and Air Canada. The contradiction between the United States and Canada has also stimulated nationalist sentiments tinged with anti-American feelings and, sometimes, economic nationalism. These sentiments have motivated Canadianization programs, sometimes involving the creation of public corporations, such as CDC and PetroCanada.

From a political economy perspective, public enterprises are

established to fulfil the accumulation and legitimization functions of the state. Through public enterprises, the cost of infrastructure is socialized to facilitate private capital accumulation and promote economic development. This was part of the motivation underlying the creation of the Intercolonial Railway, Air Canada and Canadian National Railways. The legitimization function of the state partly motivated the creation of public enterprises, such as the Canadian Wheat Board, the Farm Credit Corporation and DEVCO.

Due to the peculiar situation of Canada's political economy, especially the staples economy, limited market and the proximity of an aggressive American economy, the Canadian state has gone beyond the mere provision of infrastructure to assert control over the national economy and to counter American domination by creating public enterprises. The CN, CBC and Air Canada were, partly, created to provide infrastructure as well as preempt American domination.

Public enterprises are, from a political economy perspective, policy instruments designed to ensure the long-term survival of the capitalist system. Although public enterprises are partly created to serve the interests of capitalism as a whole, they might serve the interests of the capitalist class and, sometimes subordinate classes depending on the political and economic situation. Cases in point are CN, CDC, PetroCanada and Telesat. In the case of CN, it was intended partly to serve the interests



of grain farmers in the west as well as merchant and banking interests, while Petro-Canada served the interests of oil-consuming provinces in east and central Canada. In the cases of Telesat and CDC, mixed enterprises were considered the appropriate policy instrument to meet the conflicting demands on the state by various economic and political interests.

Party ideology and the class interest of the major political parties are other features of the Canadian political economy which have influenced the creation of public enterprises. This was particularly so in the late 1960s and 1970s, when the Liberal Party's commitment to nationalism and economic independence motivated the creation of public enterprises, such as CDC, PetroCanada and, to a certain extent, De Havilland. The disposition and the class interest of the Conservative Party may explain the Party's opposition to the creation of the CDC and PetroCanada.

Emergencies or crises, such as the World Wars or the Great Depression, which threaten the capitalist system as a whole, have also motivated the creation of public enterprises. Partly because the private sector could not deal with the exigencies of these situations, the state intervened, sometimes by creating public enterprises. In Canada, the Great Depression and the two World Wars led to the creation of a number of federal public corporations including the Canadian Wheat Board, Polymer Ltd., Defence Communication Ltd. and Turbo Research Ltd.

Lack of private capital in Canada is another reason, according to the political economy approach, which has led to the creation of public enterprises in Canada. The argument suggests that the emphasis on trade and staples, coupled with the high cost of labour and the small Canadian market, retarded private capital accumulation, since a substantial part of the capital accrued to the metropole. This dearth of private capital has frequently compelled the government to undertake projects to complement the private sector. Some of the federal public corporations created in response to the lack of private capital include Canadian National Railways, Welland Canal, Air Canada, Petro-Canada and the Canada Development Corporation.

Another thread which runs through the political economy approach is Canada's belated and dependent manufacturing sector which is unable to stand international and domestic competition. This weakness is in part due the dependence of the Canadian manufacturing on American capital and technology, especially since the end of World War I. As a result of this dependency, the Canadian economy has increasingly come under foreign, especially American, control. In the 1970s the government was determined to assert control over the national economy by establishing public corporations, such as the Canada Development Corporation and Petro-Canada, to ensure a significant Canadian presence in certain sectors of the economy. From a political economy perspective, these enterprises may have served the interest of

certain fractions of the capitalist class, especially the nationalist fraction and small businesses.

Due to the weakness of the manufacturing sector the Canadian economy continues to rely on the export of staples which depend on external demand and prices. The dependence on trade and staples has led to increasing demand on the state to establish public enterprises to deal with the instability associated with a staples economy and to provide infrastructure to facilitate the export of these staples. This may partly explain the creation of CN and of marketing boards, such as the Canadian Saltfish Corporation, Canadian Wheat Board and the Canadian Grain Commission.

Due to the increased globalization and internationalization of the world economy after World War II, national governments have increasingly lost control of their national economies. In Canada, foreign capital has increasingly dominated the economy, rendering the manufacturing sector dependent and uncompetitive. This has led to the creation of public enterprises to enhance the international competitiveness of the Canadian economy, bail out private firms which fail in the face of increased international competition and increase Canadian presence in certain sectors of the economy. These developments partly led to public ownership of De Havilland and Canadair Ltd, and government investment in Consolidated Computer and Fisheries Products International.

Using these two approaches, the study examined the origins

of selected federal public corporations and former public corporations to determine which of the approaches explains best the Canadian experience.

#### AN APPRAISAL OF THE TWO APPROACHES

The political culture approach, like the political economy approach, is a useful explanatory model for the emergence of federal public corporations in Canada. The 'fragment theory' of the political culture approach provides a good explanation as to why the Canadian polity, unlike the American, is favourably disposed to public enterprises. However, the political culture approach has certain weaknesses when applied to the origins of specific public enterprises. The argument that the streak of toryism in Canadian liberalism has led to the creation of public enterprises is a catch-all explanation for public enterprises in general, but does not explain the emergence of specific state enterprises.

The political culture approach provides potent explanation for the size and nature of public enterprise sector in Canada. But the approach is always applied in a comparative framework, most often with the United States. Comparative analysis explains the differences in the size, structure and nature of the public sector in Canada and the United States, but the predictive strength of the approach, when it comes to the specific public corporations, is limited. While the Canadian polity might be

disposed to 'big government' and state intervention, this does not explain why Polymer Ltd. or, for that matter, De Havilland or Canadair were created.

For example, government ownership of the Canadian National Railways was not so much a result of the Canadian political culture, but the extenuating circumstances of the war and the fact that Canada's credibility in the investment market was at stake. In spite of the difference in the political culture of Canada and the United States, the United States government also assumed management of railroads temporarily during the war. The political economy approach provides a better explanation of government ownership of the Canadian National and the fact that government ownership occurred in the United States as well, although to a lesser extent.

The political culture approach fails to take into account the fact that the circumstances underlying the creation of public enterprises are unique. Certainly the creation of CN, CDC, PetroCanada and De Havilland cannot be attributed to the same reasons of statism, elitism and conservatism. They were all motivated by different circumstances. There is no convincing explanation, within the political culture model, for the choice of a policy instrument, such as a mixed enterprise. This renders the political culture approach ahistorical in terms of explaining the dynamics of public enterprises.

The political economy approach is dynamic and provides

explanation for the emergence of public enterprises in general and of specific public corporations in Canada. For instance, during the World Wars and the Great Depression, public enterprises were created in both Canada and the United States, in spite of the liberalism and individualism of the American political culture. The dynamism of the political economy approach explains how the changing political and economic situation led to the creation of public corporations such as Polymer Ltd during World War II. For instance, CN, the aircraft manufacturing companies and Petro-Canada were created in response to issues which go beyond the Canadian political culture. These were all, partly, motivated by complex political, economic and social factors.

The dualism and the heterogeneity of the Canadian polity which, according to the political culture approach, has stirred nationalist sentiments and has led to the creation of nation-building institutions is a valid explanation of the emergence of some federal public corporations, including the Canadian Broadcasting Corporation and Air Canada. There were no parallels to these public enterprises in the United States. The cultural, national and cohesive objectives underlying the creation of these two public corporations were apparent. Even today, Canadians consider the CBC to be cultural institution nurturing a cultural identity for Canada.

The political economy approach also provides explanations

as to why the CBC and Air Canada were created and these explanations should not be dismissed. The size of the Canadian market and the lack of private capital hindered the private sector from developing a national radio service or a national air carrier, while the size of the United States market gave impetus to the growth of private firms, preempting public ownership there.

The political culture approach is static because it fails to explain why most of the federal public corporations were created after 1960. The elements of the Canadian political culture which inclined Canada to use public enterprises took roots even before Confederation; however, these cultural traits did not lead to the creation of many public enterprises until after 1960. This is because there were political and economic changes after 1960, which led to the creation of more public enterprises, but which the political culture approach does not consider. These cultural traits could not possibly explain the creation of PetroCanada in 1975 and the purchase of Canadair Ltd in 1975. Its static nature is another theoretical weakness of the political culture approach.

In recent times, the contradictions between the regions and the centre, and between the centre and the United States have been less influential in the creation of federal public corporations. Constitutional talks between the centre and the regions are assuming a new importance in addressing the

contradiction between the centre and the regions. The Free Trade Agreement between Canada and the United States does not suggest there would be any serious attempt to create public enterprises to stem American influence. The political economy approach identifies the dynamism of the situation, especially the postwar political economy, which led to the creation of more public enterprise to deal with the post war political and economic changes.

In spite of the explanatory power of the political economy approach, there are certain issues underlying the creation of some public enterprises which are not addressed adequately in the approach. A case in point is Teleglobe Canada, which was created, not so much because of the Canadian political economy, but in response to the Commonwealth Telegraph Agreement and the cultural disposition of policy makers. The creation of the CBC was also motivated, to a large extent, by the Canadian political culture. Both approaches have their weaknesses and strengths.

#### CONCLUDING REMARKS

Having appraised the weaknesses and the strengths of the political economy and political culture approaches to the explanation of the origins of federal public corporations in Canada, it would be untenable to dismiss either of the approaches in favour of the other. Though the studies revealed that the explanatory power of the political economy approach is stronger



than the political culture approach with respect to specific public corporations, the political culture approach offers a useful explanation of the background and history of statism in Canada which should not be overlooked.

The public enterprise phenomenon in Canada is complex and cannot be explained by a single approach. There is no unicausal explanation for the emergence of federal public corporations in Canada. However, the weakness of the political economy approach could be addressed by incorporating the strengths of the political culture approach and other approaches to enhance its explanatory power.

The political economy approach has a relative advantage over the political culture approach, because it is able to explain better the origins of specific federal public corporations. The dynamism of the approach underlines the complexity underlying the creation of federal public corporations in Canada. Whatever the advantages of the political economy approach it must be complemented by certain aspects of the political culture approach as well as other models, such as the rational choice theory, to enhance its predictive power.

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